

## **IMPORTANT GUIDELINES ON CRR & SLR \***

### **1. CASH RESERVE RATIO (CRR)**

Cash Reserve Ratio (CRR) is the amount of funds that all Scheduled Commercial Banks (SCB) excluding Regional Rural Banks (RRB) are required to maintain without any floor or ceiling rate with RBI with reference to their total net Demand and Time Liabilities (DTL) to ensure the liquidity and solvency of Banks (Section 42 (1) of RBI Act 1934). The current CRR is 6% and at present no incremental CRR is required to be maintained by the banks.

### **Computation of DTL**

Demand Liabilities are liabilities which are payable on demand and Time Liabilities are those which are payable otherwise than on demand. The components for computation of DTL include Demand Liabilities, Time Liabilities and Other Demand & Time Liabilities (ODTL) as under:-

a) Demand Liabilities:-

Current Deposits, Savings bank deposits, Margins held against letters of credit/guarantees, Balances in overdue fixed deposits, Outstanding TTs, MTs, DDs

Unclaimed deposits, Credit balances in the Cash Credit account and deposits held as security for advances which are payable on demand, & Money at Call and Short Notice from outside the Banking System (Liability to others).

b) Time Liabilities:-

Fixed deposits, cash certificates, cumulative and recurring deposits, time liabilities portion of savings bank deposits, staff security deposits, margin held against letters of credit, if not payable on demand, & deposits held as securities for advances which are not payable on demand and Gold deposits.

c) Other Demand and Time Liabilities (ODTL):-

Interest accrued on deposits, bills payable, unpaid dividends, suspense account balances representing amounts due to other banks or public, net credit balances in branch adjustment account, any amounts due to the banking system which are not in the nature of deposits or borrowing.

Participation Certificates issued to other banks, the balances outstanding in the blocked account pertaining to segregated outstanding credit entries for more than 5 years in inter-branch adjustment account, the margin money on bills purchased / discounted and gold borrowed by banks from abroad, Cash collaterals received under collateralized derivative transactions and Loans/borrowings from abroad.

### **Liabilities not included under DTL/ODTL**

- a) Paid up capital, reserves, credit balance in the Profit & Loss Account, loan taken from the RBI, refinance taken from Exim Bank, NHB, NABARD, SIDBI;
- b) Net income tax provision;
- c) Amount received from DICGC towards claims pending adjustments thereof;
- d) Amount received from ECGC
- e) Amount received from insurance company on ad-hoc settlement of claims pending judgment of the Court;
- f) Amount received from the Court Receiver;
- g) The liabilities arising on account of utilization of limits under Bankers Acceptance Facility (BAF);
- h) District Rural Development Agency (DRDA) subsidy of Rs.10, 000/- kept in Subsidy Reserve Fund account in the name of Self Help Groups.
- i) Subsidy released by NABARD under Investment Subsidy Scheme for Construction/Renovation/Expansion of Rural Godowns;
- j) Net unrealized gain/loss arising from derivatives transaction under trading portfolio;
- k) Income flows received in advance such as annual fees and other charges which are not refundable.
- l) Bill rediscounted by a bank with eligible financial institutions as approved by RBI and,
- (m) Provision not being a specific liability arising from contracting additional liability and created from profit and loss account.

#### Exempted Categories

- a) Liabilities to the banking system in India
- b) Credit balances in ACU (US\$) Accounts;
- c) Demand and Time Liabilities in respect of their Offshore Banking Units (OBU)
- d) Inter-bank term deposits/term borrowing liabilities of original maturities of 15 days and above and up to one year, and
- e) Inter-bank assets of term deposits and term lending of original maturity of 15 days and above and up to one year.

#### Procedure/maintenance

As a measure of simplification, a lag of one fortnight in the maintenance of stipulated CRR by SCBs has been introduced. All SCBs are required to maintain minimum CRR balances up to 70 per cent of the average daily required reserves for a reporting fortnight on all days of the fortnight (w.e.f. December 2002).

#### Other provisions/penalty

- All SCBs are required to submit to RBI a provisional Return in Form 'A' within 7 days from the expiry of the relevant fortnight.

- Default in maintenance of CRR requirement on a daily basis (presently 70% of the total requirement) by SCBs attracts penal interest for that day at 3% above Bank Rate on the short fall.
- In case the shortfall continues on the next succeeding day/s, penal interest at the rate of 5% p.a. above the Bank Rate is applicable.

## 2. **STATUTORY LIQUIDITY RATIO (SLR)**

SLR stands for Statutory Liquidity Ratio. Apart from CRR, every bank is required to maintain in India at the close of business every day, a minimum proportion of their Net Demand and Time Liabilities as liquid assets in the form of cash, gold and un-encumbered approved securities. The ratio of liquid assets to demand and time liabilities is known as Statutory Liquidity Ratio (SLR). Present SLR is 24%. (Reduced w.e.f. 8/11/2008 from earlier 25%). RBI is empowered to increase this ratio up to 40%. An increase in SLR also restricts the bank's leverage position to pump more money into the economy.

- In the event of SCBs SLR holdings fall below the statutory requirement upto 1% of their DTL, they can avail the Marginal Standing Facility (MSF) upto 1% of their net DTL outstanding at the end of the second proceeding fortnight and they will not have the obligation to seek specific waiver of the default in SLR compliance arising out of use of this facility (w.e.f. May 2011).

The liquid assets include cash or Gold valued at a price not exceeding the current market price or investment in 'Statutory Liquidity Ratio (SLR) securities' viz.

- a) Dated securities issued upto 06.05.2011 (Detailed in RBI notification of date).
- b) Treasury Bills of GOI
- c) Dated securities of the Government of India issued from time to time under the market borrowing programme\* and the Market Stabilization Scheme
- d) State Development Loans (SDLs) of the State Governments issued from time to time under the market borrowing programme; and
- e) Any other instrument as may be notified by the Reserve Bank of India.

\* Market borrowing programme refers to domestic rupee loans raised by GOI and State Governments from the public and managed by the RBI.

provided that the securities (including margin) are not acquired under RBI – Liquidity Adjustment Fund (LAF).

- Encumbered SLR securities shall not be included for the purpose of computing the percentage specified above.

Provided that for the purpose of computing the percentage of assets referred to hereinabove, the following shall be included, namely:

#### Other eligible securities

- Securities lodged with another institution for an advance or any other credit arrangement to the extent to which such securities have not been drawn against or availed of.
- Securities offered as collateral to the RBI for availing liquidity assistance from Marginal Standing Facility (MSF)
- The deposit required under sub-section (2) of Section 11 of the Banking Regulation Act 1949 to be made with the Reserve Bank by a banking company incorporated outside India;
- Any balances maintained by a scheduled bank with the RBI in excess of the balance required to be maintained by it under Section 42 of the Reserve Bank of India Act, 1934 (2 of 1934); and
- Net balances in current accounts with other scheduled commercial banks in India.

#### Procedure for Computation of SLR/Penalty

(2) The procedure to compute total NDTL for the purpose of SLR under Section 24 (B) of B.R. Act, 1949 is broadly similar to the procedure followed for CRR.

- SCBs are required to include inter-bank term deposits / term borrowing liabilities of all maturities in 'Liabilities to the Banking System'. Similarly, inter-bank assets of term deposits and term lending of all maturities in 'Assets with the Banking System' for computation of NDTL for SLR purpose.
- Default in maintenance of the required amount of SLR attracts penalty at at the rate of 3% p.a. above the Bank Rate on the shortfall and if the default continues on the next succeeding working day, the penal interest may be increased to a rate of 5% p.a. above the Bank Rate for the concerned days of default on the shortfall.
- SCBs are required to submit to RBI before 20<sup>th</sup> of every month a return (For VIII) showing the amount of SLR held on alternate Fridays during immediate preceding month with particulars of their DTL in India on such Fridays (Public holidays preceding working day).

\*(SOURCE: RBI MASTER CIRCULAR)

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