DBOD.No.BP.BC.57/62-88 December 31, 1988

All Scheduled Commercial Banks
excepting Regional Rural Banks

Dear Sirs,

**Inter-Bank Participations**

Please recall the credit policy measures announced by the Governor in his meeting with the Chief Executives of all scheduled commercial banks and the circular No. CPC.BC.95/279A-88 dated 8th October, 1988 issued in this regard. It was, inter alia, decided to introduce the scheme of inter-bank Participations and the necessary guidelines in this regard were to be issued by Reserve Bank of India. Accordingly, a scheme of inter bank Participations has been prepared and a copy thereof is enclosed for information of the banks.

2. It was also stated in the circular that the scheme will be made operative after the Indian Banks' Association (IBA) evolves necessary documentation. Accordingly, the IBA has evolved a common agreement for Participations. The documentation is being circulated by IBA to the member banks.

Yours faithfully,

Sd/-

**N.D. PARAMESWARAN**
Joint Chief Officer

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## SCHEME OF INTER-BANK PARTICIPATIONS-GUIDELINES

### Introduction

The Working Group on the Money Market (Chairman Shri N.Vaghul) had recommended the introduction of Inter-Bank Participations, with a view to providing an additional instrument for evening out short term liquidity within the banking system. The said recommendation has been accepted and the following scheme of Participations has been framed. The salient features of the Scheme are given below:

There will be two types of Participations:

I. Inter-Bank Participations with Risk Sharing; and

II Inter-Bank Participations without Risk Sharing.

The Participations would be strictly inter bank confined to scheduled commercial banks.

### I. Inter-Bank Participations with Risk Sharing

The primary objective of the Participations is to provide some degree of flexibility in the credit portfolio of banks and to smoothen the working of consortium arrangements.

1. **Applicability of the Scheme**

   The scheme will be confined to scheduled commercial banks.

2. **Period of Participations**

   The minimum period of such a Participation will be 91 days, while the maximum period will be 180 days.

3. **Rate of Interest**

   The rate of interest on Participations would be left free to be determined between the issuing bank and the participating bank, subject to a minimum of 14.0 per cent per annum.

4. **Selection of Accounts**

   Banks will allot such Participations only in respect of advances classified under Health Code No. 1 status. The aggregate amount of such Participations in any account should not exceed 40 per cent of the out standings in the account at the time of issue. During the currency of the Participations the aggregate amount of Participations should be covered by the outstanding balance in the account. In case the outstanding balance falls short of the participations outstanding, the issuing bank will reduce the Participations to the extent necessary and if need be, issue Participations for smaller amounts.

5. **Accounting**

In the case of the issuing bank, the aggregate amount of Participations would be reduced from the aggregate advances outstanding. Such transactions will not be reflected in the individual borrower's accounts but will be only netted out in the General Ledger. The participating bank would show the aggregate amount of such Participations as part of its advances. The issuing bank will maintain a register to record full particulars of such Participations.

There will be no privity of contract between the borrower and the participating bank and to avoid any difficulty, banks will incorporate in the cash credit agreement of the borrowers an appropriate clause permitting the lending bank to shift a part of the advance to any bank, without notice to the borrowers, by way of Participations. The agreement may also provide that in the event of issue of Participations the issuing bank would continue to represent the participating bank in protecting the latter's interests.

6. **Risk**

The risk would be deemed to have crystallised when the issuing bank recalls the advances and stops operations in the relative account. In such a case the issuing bank would give due notice to the participating bank intimating the default.

.7 **Repayment**

The issuing bank will normally repay the amount of Participations together with interest to the participant bank on the date of maturity, excepting when the risk has materialised. In cases where risk has materialised the issuing bank will take necessary action, in consultation with the participating bank and share the recoveries proportionately.

8. **Documentation**

All banks wishing to participate in the scheme should subscribe to the "uniform code for Participations" prepared by IBA which will spell out clearly their inter-se rights and obligations in relation to the securities covered by the advances in question.

9. **Transferability**

Participations will not be transferable.

Il. **Inter-Bank Participations without risk sharing**

The primary objective of this type of Participation is to even out short term liquidity. The Participation should be backed by the cash credit accounts of the borrowers.

1. **Applicability of the scheme**

   The scheme will be confined to scheduled commercial banks only.

2. **Period of Participation**

   The tenure of such Participations will not exceed 90 days.

3. **Rate of Interest**

   The rate of interest would be determined by the two concerned banks subject to a ceiling of 12.5 per cent per annum.

4. **Accounting**

   The issuing bank will show the amount of Participations as borrowing while the participating bank will show the same under Advances to bank i.e. due from banks. The Participations would be treated as part of the net Demand and Time Liabilities and net bank balances for purposes of statutory reserve requirements.

5. **Repayment**

   On the date of maturity, the issuing bank will pay the amount of Participations with interest to the participating bank irrespective of the default if any in the advance in question.

6. **Transferability**

   Participation will not be transferable.

7. **Reporting of Data**

   As a result of outstanding Participations being treated as borrowings, the issuing bank should report such borrowings in the fortnightly return under Section 42(2) of the Reserve Bank of India Act, 1934. The same should be done by including the amount of Participations, by the issuing bank under 'Borrowings from banks' i.e. item l(b) in Form 'A'. The participating bank should include the amount of Participations taken in advances to banks under item III(c) in Form 'A'. The amount of Participations so included in the relative items of Form 'A' should be clearly indicated as a foot-note to the return, showing separately also Participations on risk sharing basis.