

RBI/2006/189

UBD.PCB.Cir.No. 21/16.12.000/06-07

November 27, 2006

The Chief Executive Officers of
All Primary (Urban) Co-operative Banks

Dear Sir/Madam,

Conduct of Foreign Exchange Business by UCBs-

As you are aware, an announcement had been made in the Mid Term Review of Annual Policy Statement for the year 2005-06 (para 108) to consider issuance of licence to conduct foreign exchange business (Authorized Person Licence) to scheduled UCBs registered under the Multi State Co-operative Societies Act and under the State Acts (where the State Governments concerned have assured regulatory co-ordination by entering into MOU with the Reserve Bank of India). The eligibility norms were to be notified separately.

2. Meanwhile, our Foreign Exchange Department had issued A.P. (DIR Series) Circular No.25/A.P (FL Series) Circular No 02 dated March 6, 2006 revising the guidelines on grant of authorization for transacting foreign exchange business (available on RBI website www.rbi.org.in). As per the revised guidelines, there would be three categories of Authorized Dealers (Category I, II and III) besides Full Fledged Money Changers (FFMCs). The classification of persons authorized to deal in foreign exchange and their activities are furnished in the Annex-I, enclosed to the above directive. Under the revised guidelines, a new category of AD i.e. Category II has been introduced and institutions/entities having strong financials, good governance, regulatory/prudential comfort and adequate internal control mechanism would be eligible for the same. ADs-category-II will be permitted to release/remit foreign exchange for certain transactions as given in the Annex II, enclosed to the above directive.

3. In this context, it has been decided that UCBs would be eligible for AD Category I / II licence, subject to compliance with the norms given in the Annex-I.

4. It has also been decided not to give any fresh authorization for UCBs to function as FFMC.
5. Eligible UCBs, including those holding FFMC licence may submit their applications to the Urban Banks Department of the Regional Office concerned with the document/information specified in Annex II.
6. Please acknowledge receipt to the Regional Office concerned.

Yours faithfully,

(N.S.Vishwanathan)
Chief General Manager-in-Charge
Encl: As above

Eligibility norms for AD licence

AD Category-I

- a) The bank should be registered under the Co-operative Societies Act of a state which has signed MOU or under the Multi State Co-op Societies Act 2002.
- b) It should be included in the Second Schedule to RBI Act 1934.
- c) It should have a minimum net worth of Rs 200 crore.
- d) Its CRAR should not be less than 12 %,
- e) The NPAs of the bank should not exceed 10 %.
- f) It should have made profit in the preceding three years.
- g) It should not have defaulted in maintenance of CRR/ SLR requirements.
- h) It should have sound internal control systems
- i) It should have an elected board of management with at least two professionals.

AD Category-II

- a) The bank should be registered under the Co-operative Societies Act of a state which has signed MOU or under the Multi State Co-op Societies Act 2002
- b) It should have a minimum net worth of Rs.10 crore
- c) Its CRAR should be not less than 9%
- d) Its NPAs should not exceed 10%
- e) It should have made profit in the preceding three years.
- f) It should not have defaulted in maintenance of CRR/ SLR requirements.
- g) It should have sound internal control systems
- h) It should have an elected board of management with at least two professionals.

List of document/information to be furnished along with the application

1. A copy of the latest audited balance sheet.
2. Computation of net worth and a certificate from a Chartered Accountant certifying the net worth.
3. Certified copies of the balance sheets and profit and loss accounts of the bank for the last three years for verification of profitability.
4. A declaration to the effect that no proceedings have been initiated by any law enforcing agency against the bank or its directors.
5. Necessary Board resolution for conducting AD Category-I/II activities and applying to RBI for obtaining necessary licence.
6. A report on KYC/AML systems prevalent in the bank, more particularly relating to the money changing activities/ dealing in foreign exchange and turnover figures of purchases and sales of foreign exchange for the last three years, where the UCB is already permitted to conduct foreign exchange business as FFMC, etc.