

F. No. 7/124/2012-BOA
Government of India
Ministry of Finance
Department of Financial Services

Jeevan Deep Building, Sansad Marg
New Delhi, dated the 26th September, 2012

To,

The Chief Executives of all Public Sector Banks.

Subject : Master Circular on Core Banking Solution (CBS) & IT.

Dear Sir,

The Government of India has issued guidelines / instructions to the Public Sector Banks (PSBs) on CBS & IT. In order to have these guidelines / instructions at one place for ready reference, a Master Circular incorporating the existing guidelines / instructions issued by the Government on the subject has been prepared.

2. All CEOs are requested to acknowledge receipt and ensure compliance of the above guidelines in their PSBs and Regional Rural Banks (RRBs) sponsored by their banks.
3. This issues with the approval of Secretary (FS).

Yours faithfully,

Sd-
(Pravin Rawal)
Deputy Secretary (BOA)

Encl: As above

1. **Switching over to the system-based identification and collation of NPAs.**

The Indian Banks' Association (IBA) informed that as per the feedback received from some of the member banks, they are not fully geared up to implement the Government advisory to ensure that detection and classification of NPAs are system driven. IBA made a presentation on 'System based identification and collation of Non Performing Assets (NPAs) in DFS on 28.03.02011. The meeting was attended by a number of senior officials of the PSBs. Secretary (FS) stated that it is mandatory for every PSB to switch over to the System based identification and collation of NPAs. The representatives of PSBs informed that system generation of NPAs in respect of agriculture loans is more complex and difficult to implement. The target of achieving the same by 31.03.211 could not be completed. They further informed that due to variation in the crop seasons from State to State, fixing of due dates for the loans based on crop season is posing problems in evolving the software. Hearing to these problems, Secretary (FS) advised that technical problems in switch-over is required to be tackled by the banks. However, the switch-over may be done in a phased manner.

2. It has been decided that the system based identification and collation of NPAs has to be done in a phased manner as under –

- i. For accounts with total credit facilities of Rs.1 crore and above- by 31st March 2011
- ii. For accounts with total credit facilities of Rs.50 lac and above- by 30th June 2011
- iii. Completion of 100% system based identification and collation of NPAs-
By 30th September 2011

2. Use SFMS for sending and receiving Letter of Credit and Bank Guarantee instruments.

The need for a secure and common messaging System that would serve as the basic platform for intra-bank and inter-bank applications, and would fulfill the requirements of domestic financial messaging, gave birth to the Structured Financial Messaging System (SFMS). The SFMS was launched on December 14, 2001, at the Institute for Development and Research in Banking Technology (IDRBT).

2. The SFMS is built on the lines of SWIFT but has many more utilities to offer. The major advantage of SFMS is that it can be used practically for all purposes of secure communication within the bank and between banks. The intra-bank part of SFMS can be used by the banks to take full advantage of the secure messaging facility it provides. The inter-bank messaging part is useful for applications like Electronic Funds Transfer (EFT), Real Time Gross Settlement System (RTGS), Delivery Versus Payments (DVP), Centralized Funds Management System (CFMS) etc.

3. Considering the advantages associated with the use of SFMS, the Indian Banks' Association (IBA) had formally launched a Pilot Project on Trade Finance using SFMS format on the INFINET network connectivity provided by IDRBT as a secured messaging system that would serve as a basic platform for intra-bank and interbank application on February 15, 2007. The pilot project was joined by 10 banks. Letters of Credit (LC) were opened and communicated through the network to the advising banks to mark the launch of the project.

4. Currently, among the initial participants, very few banks still offer Trade Finance services through SFMS. IBA had requested all banks vide letter dated 27.08.2009 to join the SFMS platform for trade finance project.

5. It has been observed that SFMS platform has been used by banks and some state governments for NEFT and it has been a huge success. The volumes have touched nearly three million a day and have grown over 100% on YOY basis. Thus the platform has demonstrated its resilience, security and scalability. SFMS has been recently opened for RRBs and Co-operative banks and a number of them have joined.

6. The platform is capable of handling nonpayment applications like domestic LCs and Bank Guarantees (BG) in a secure and cost effective way. Only few banks are using this. Unless majority of banks join, there would not be enough counterparties which generate volumes.

7. Presently, there is no directive mandating use of SFMS platform for this purpose, in the absence of which, banks cannot unilaterally send the messages to

the beneficiary banks. Banks also cannot have bilateral/multilateral agreements for this purpose due to feasibility issues.

8. There have been a number of cases of frauds in case of LC discounting and BGs. This is a great cause of concern with regard to strategy of Public Sector Banks (PSBs).

9. Therefore, it is felt that making the use of SFMS mandatory in this regard will help banks to establish a secure medium for transferring trade finance messages for sending and receiving LCs and BG instruments, thereby establishing a safe and secure environment in the Indian banking industry for conducting Trade Finance business. A methodology for using SFMS Platform for issuing BGs has also been suggested.

10. PSBs have ,therefore, been requested to have the proposal to make the use SFMS mandatory, for sending and receiving Letter of Credit and Bank Guarantee instruments, placed before your Board for approval and implementation in the upcoming board meeting. **No PSB can issue any LC or BG after 01.08.2012 except through SFMS system.** No LC or BG from any other bank including PSB be accepted except through SFMS system w.e.f. that date.

3. **Use of SFMS for sending and receiving Letter of Credit and Bank Guarantee instruments in RRBs.**

Similar to the practice in PSBs on use of SFMS, all the RRBs have been requested to make use of SFMS mandatory for sending and receiving Letter of Credit and Bank Guarantee instruments. RRBs have been requested to ensure implementation of the instructions contained in the letter dated 17.07.2012 on the subject referred in 'letter and spirit'.

Circulars on Core Banking Solution (CBS) & IT:

S.no.	Circular / Letter No.	Date	Subject
1	F.No. 7/55/2010-BOA	08.07.2011	Circular on identification and collation of NPAs
2	F.No. 7/112/2011-BOA	17.7.2012	Circular on use of SFMS for sending and receiving Letter of Credit and Bank Guarantee instruments in PSBs.
3.	F.No. 7/112/2011-BOA	3.8.2012	Circular on use of SFMS for sending and receiving Letter of Credit and Bank Guarantee instruments in RRBs