

**CIRCULAR ON LIQUIDITY, EXPOSURE & PRUDENTIAL NORMS FOR THRIFT  
AND CREDIT MULTI-STATE COOPERATIVE SOCIETIES**

**(EXCLUDING BANKS)**

**1. Introduction**

In accordance with section 7 of the MSCS (Amendment) Act, 2023 read with rule 3 of the MSCS (Amendment) Rules, 2023, the following prudential norms for different categories of societies are hereby notified.

Category	Size
Micro	MSCS with deposits up to Rs 10 crores
Small	MSCS with deposits above Rs 10 crores and up to Rs 100 crores
Medium	MSCS with deposits above Rs 100 crores and up to Rs 500 crores
Large	MSCS with deposits above Rs 500 crores

**2. Capital**

The Capital will be categorized into Tier-I & Tier-II capital. The composition of each tier is given at **Annexure-I**.

**3. Capital Adequacy Ratio**

Every MSCS to maintain Capital to Risk Weighted Assets Ratio (CRAR) at minimum as per the size classification on ongoing basis based on the balance sheet of the previous accounting year-end. The CRAR will be calculated as under:

$$\text{CRAR} = \frac{\text{Capital (Tier I and Tier II)}}{\text{Total Risk Weighted assets (RWAs)*}}$$

The minimum CRAR for Micro, Small, Medium, and Large MSCS would be as 9%, 10%, 11% and 12% respectively. Existing MSCS not meeting this requirement are given 5 years to comply.

\* Risk weights for different assets are given in **Annexure II**.

#### **4. Capital for market risk**

Large MSCS to maintain additional risk weights to manage interest rate risk related to investments. The aggregate risk weights for securities are given in **Annexure II**.

#### **5. Refund of share capital**

This will be done as per Section 35 of the MSCS (Amendment) Act, 2023 subject to the following:

The share capital can only be refunded subject to the condition that the CRAR of the MSCS, as per the latest audited balance sheet, is above the size-wise minimum stipulated and the refund should not result in CRAR falling below the said minimum.

#### **6. Liquidity Management**

All the MSCS will maintain the following liquidity buffers:

- a) Cash with itself and balances in current accounts with Scheduled banks/ Nationalized Banks, and/or State co-operative bank and/or District Central Co-operative bank a sum equivalent to 4 percent of its deposits as of the last Friday of the month for the succeeding one month.
- b) Investments as approved by the Central Registrar for a sum equivalent to 18 percent of the total deposits as on the last Friday of the month.
  1. Term deposits with Scheduled/ Nationalized banks
  2. Term deposits with District Central Cooperative bank
  3. Term deposits with State Co-operative bank
  4. Any of the securities issued by the Central Government, State Government, Government Corporations, Government Companies, Authorities, Public Sector Undertakings or any other securities ensured by Government guarantees

#### **7. Exposure Management**

##### **7.1 Aggregate exposure limit**

The aggregate of deposits raised borrowings by an MSCS at any time shall not exceed such multiples, as given in the table below, of the sum of subscribed share capital and accumulated reserves as per the latest audited results.

For Large MSCS	Multiple will be 8
For Medium MSCS	Multiple will be 7
For Small MSCS	Multiple will be 6
For Micro MSCS	Multiple will be 5

Any MSCS not meeting the exposure norm will meet norms not later than three accounting years from the issue of these guidelines

Combined Implication of the Exposure limit and Capital Adequacy on the maximum attainable CD Ratio by MSCS of various sizes*							
<i>(Fig. in crores)</i>							
Particulars	Capital	Deposit + borrowing	Liquidity to be maintained	Balance amount to lend	Amount that can be lent	Minimum Capital requirement @ 12%	CD Ratio attainable
Large	10	80	18	62	72	8.64	90%
Medium	10	70	16	54	64	7.71	92%
Small	10	60	13.5	46.5	56.5	6.78	94%
Micro	10	50	6.25	43.75	53.75	6.45	108%

## 7.2 Individual Borrower Exposure

The aggregate exposure on any individual borrower on loans and advances and investments, if any, should not exceed 10% of Tier I capital of the MSCS

## 7.3 Group of borrowers for MSCS

The aggregate exposure on group of borrowers should not exceed 25% of tier I and Tier II capital of the MSCS. Individual borrowers not to exceed 10% of Tier I Capital.

## 7.4 Unsecured Loans

To have a cap on the unsecured loans and advances in the books at 15% of total loans and advances.

## 7.5 Exposure to Housing, Real Estate, Commercial real Estate

In case of real estate finance by the MSCS it must be ensured that the loans are used for construction activities and not for any speculative activities in real estate. In that context following should be adhered to. The exposure to individual housing loans capped at 10% of the total loans and advances. The Boards of MSCS to make policy to cap exposure under individual housing loans as per given below:

Category of MSCS	Suggested Individual Exposure Norms for MSCS
	(Rs. In lakhs)
Micro	Nil
Small	25
Medium	30
Large	35

## 8. Income Recognition and asset classification (IRAC)

The brief outline of the key accounting practices suggested for asset classification and income recognition is given below.

### Income Recognition

- Income in the form of interest, commission, fees, etc. should be booked based on the recovery only.
- If an account turns into NPA the income booked by way of interest, fees, etc. should be reversed for the current period and also for the past period if those are not recovered.
- Interest or any other charges should not be levied on NPA accounts.
- If interest is recovered in case of NPA account, the same can be booked as income provided the interest did not come from additional disbursement of loans.

For identification of NPA the following be adopted:

- In case of cash credit or overdraft account if the outstanding balance exceeds the drawing power or limit continuously for a period more than 90 day the account will be identified as NPA
- In case of cash credit or overdraft account if the outstanding balance is less than the drawing power but there is not enough credit to cover the quarterly interest charged in the account for 90 days from the date of debit of interest the account will be classified as NPA. In case of loan against MSCS' own fixed deposits as long as there is margin of 10% even after the debit of quarterly interest such account need not be classified as NPA. However, endeavour to follow up to recover interest be undertaken and depending on the response the deposit be encashed to liquidate the loan so that the

outstanding including interest should not exceed the maturity/premature payment proceeds of the deposits.

- In case of term loans in the quarterly interest and/or instalment due for payment remains unpaid for a period of more than 90 days.
- Loan accounts classified as NPA can only be upgraded to 'standard' provided all dues on interest and principal are paid in full. Partial payment will not eligible the accounts to be upgraded.

#### Asset classification

- Standard asset – A borrower account which does not exhibit any risk of failure to pay interest or honour obligations under a term loan if availed in the given state of the borrower's financial position and which has not been identified as NPA is classified as standard asset.
- Substandard assets – Any borrower account which remains in NPA for a period upto 12 months is classified as substandard account.
- Doubtful asset – If a borrower account remains substandard for a period more than 12 months it is classified as doubtful asset. The chances of recovery from such class of accounts becomes challenging.
- Loss Assets – If the management of MSCS or its auditor infer that the prospect of recovery from the borrower is poor due to failure of the business, deterioration of the security among others the account should be classified as loss asset.

#### **9. Branch Expansion:**

- a) MSCS meeting the following criteria can apply for opening of new branches for approval subject to a maximum of 10% of the branches at the end of the previous accounting year with a maximum of 10 branches which can be opened during a year:
- b) Minimum CRAR of 12% on continuous basis for a period of 3 years as per the audited results.
- c) Gross NPA should be less than 7% and net NPA should not be more than 3% as per the audited results.
- d) Should have positive net profit as per the audited result in last three accounting years
- e) Consistently maintain liquidity buffer as per the stipulation in the guidelines without any default.
- f) MSCS should have strong internal control system in place and adhere to appropriate KYC processes and established customer grievance redressal mechanism among others.

## **9.1 Reports and Disclosures**

MSCS to submit quarterly business parameters and prudential ratios like CRAR, Deposits and borrowings to Subscribed Capital & accumulated Reserves ratio, Liquidity Buffer ratios, Gross and Net NPA ratios to the Central Registrar on Quarterly basis through portal.

## **10. Implementation Schedule**

### **CRAR**

Existing MSCS not meeting the minimum CRAR requirements be given 3 years to meet the requirement and one year for liquidity buffer requirement.

All MSCS should comply with the exposure norms for individual borrower and group borrowers with immediate effect for new loans and rebalance the portfolio in case of breaches in the norm upon next renewal for facilities if they are recurring in nature and in case of term loans, they may be allowed to run the term.

**1. Composition of Tier-I Capital:**

Tier-I Capital will comprise of :

1. Paid-up share capital from regular members having voting rights
2. Share Capital & Non-refundable admission fees collected from the nominal and associate members
3. Free Reserves as per the audited accounts
4. Capital Reserves representing surplus arising out of sale proceeds of assets
5. Any surplus (net) in Profit and Loss Account i.e., balance in P&L after appropriation
6. Outstanding amount in Special Reserve created under Section 36(1) (viii) of the Income Tax Act, 1961

*Note:*

- (i) Amount of intangible assets, losses in current year and those brought forward from previous periods, deficit in NPA provisions, income wrongly recognized on non-performing assets, provision required for liability devolved on MSCS, etc. will be deducted from Tier I Capital.
- (ii) For a Fund to be included in the Tier I Capital, the Fund should satisfy two criteria viz., a. the Fund should be created as an appropriation of net profit, and b. should be a free reserve and not a specific reserve. However, if the same has been created not by appropriation of profit but by a charge on the profit then this Fund is in effect a provision and hence will be eligible for being reckoned only as Tier II capital and subject to a limit of 1.25% of risk weight assets provided it is not attributed to any identified potential loss or diminution in value of an asset or a known liability.

**2. Composition of Tier II Capital:**

- (i) Revaluation Reserves These reserves often serve as a cushion against unexpected losses, but they are less permanent in nature than Tier I capital and cannot be considered as 'Core Capital'. It would be prudent to consider revaluation reserves at a discount of 55% when determining their value for inclusion in Tier II Capital i.e., only 45% of revaluation reserve should be taken for inclusion in Tier II Capital. Such reserves will have to be reflected on the face of the balance sheet as revaluation reserves.
- (ii) General provision and Loss reserves These would include such provisions of general nature appearing in the books of the MSCS which are not attributed to any identified potential loss or a diminution in value of an asset or a known

liability like General Provision for Standard Assets. Adequate care must be taken to ensure that sufficient provisions have been made to meet all known losses and foreseeable potential losses before considering any amount of general provision as part of Tier II capital. Such provisions which are considered for inclusion in Tier II capital will be admitted up to 1.25% of total weighted risk assets.

- (iii) Balances in the Investment Fluctuation Reserve created out of appropriation of net profit from the realised gains from the sale of investments held in AFS & HFT can be reckoned as Tier II capital.
- (iv) The total of Tier II capital can be a maximum of 100% of Tier I capital.



## Risk Weights for different Assets

	Asset items in the balance sheet	Risk weight
1	Cash and balance with banks	
	a) Cash	--
	b) Balance in current account with Scheduled Banks	--
	c) Balance in current account with cooperative bank, state cooperative bank, land development bank, central cooperative bank	--
2	Investments/securities issued by	--
	a) Central/State Government	--
	b) Government companies/Authorities – Central @	--
	c) Government companies/Authorities – State@	--
	d) Public Sector Undertakings @	--
	e) Any other securities backed by Government Guarantees	--
	f) In shares or securities of any multi-state cooperative society @@	--
	g) Deposit with scheduled bank, cooperative banks	--
3	Loan and advances	--
	a) Loans and advances including other credit facilities guaranteed by Central Government	--
	b) Loans guaranteed by State Government	--
	c) Real Estate Exposure – Mortgaged housing loans to individuals @@@ 1. Upto Rs. 30 lakh ( LTV ratio =or<75% 2. Above Rs. 30 lakh (LTV ratio =or<75% 3. Irrespective of loan amount with LTV ratio >75%	--
	d) Commercial Real Estate @@@@	--
	e) Commercial Real Estate Residential Housing @@@@	--
	<i>LTV ratio should be computed as a percentage of total outstanding in the account (viz. "principal + accrued interest + other charges pertaining to the loan" without any netting) in the numerator and the realizable value of the residential property mortgaged to the bank in the denominator</i>	--
	f) Retail Loans and Advances 1. Consumer credit including personal loans 2. Loans upto Rs. 1 lakh against gold or silver ornaments with margin specified by Central Registrar from time to time 3. All other loans and advances including educational loans	--

	4. Loan against primary or collateral security of NIFTY 100 shares with 50% margin and with capability to monitor the market movement on daily basis and invoke pledge at appropriate time so that LTV not to breach 75%	
	g) Advances against pledge of term deposits issued by the MSCS and with margin of 10%, and LIC Policies, NSCs, IVPs, KVPs with margin of 25% or as may be specified by the Central Registrar from time to time. MSCS cannot grant loan against term deposits issued by other MSCS or any other schedule bank or cooperative bank.	--
	h) Loans to bank staff who are covered fully by superannuation benefits and mortgage of house/flat	--
4	Other Assets	--
	a) Premises, furniture and fixtures	--
	b) Other Assets	--
	1. Interest due on Government securities	
	2. Interest receivable on staff loans	
	3. Interest receivable from banks	
	4. All Other Assets	