

BANGLADESH BANK

HEAD OFFICE

DHAKA

FINANCIAL INSTITUTIONS DEPTT.

FID CIRCULAR NO. 03

DATE: 30 June, 2003

All Financial Institutions in Bangladesh

Dear Sirs,

Directives in respect of issues under Section 18 of Financial Institutions Act, 1993

01 In accordance with the context of Section 18(Chha) of Financial Institution Act, 1993 Bangladesh Bank, vide FID Circular No. 3 dated 12-5-97, issued directives to be followed/ implemented by the Financial Institutions working in Bangladesh. Later on, after subtracting/adding those rules/regulations contained in the Circular dated 12/5/97, FID Circular No. 01 dated 03-01-99, FID Circular No. 07, dated 04-06-2001, FID Circular Letter 04, dated 08-10-2001 and FID Circular Letter 11, dated 17-12-2002 have been issued. Regarding variation of interest rates on different types of loans/deposits received by the FIs, a new policy is being circulated vide this Master Circular.

02. In order for smooth implementation of the rules/regulations by the FIs and all related persons, the FID Circulars/Circular Letters cited above and the directives contained in those Circular/Circular Letters have been amalgamated and placed below:

(a) **Taking different types of deposits/loans:**

(1) Financial Institutions shall not receive any Deposit(s)/Loan(s) payable on Demand. The minimum period of time for deposits taken by the Financial Institutions shall be one-year and such deposit/Loan shall be encashable only after maturity. However, in case of deposit received from general public, premature encashment may be allowed after expiry of a minimum one year on request by the depositor. In other words, irrespective of the tenure of deposit (one year or more) it can't be encashed before expiry of one year.

(2) The Financial Institutions may borrow from an individual without any maximum limit, but Bangladesh Bank does not take any responsibility for such deposits.

(3) Financial Institutions may receive loan(s)/ deposit(s) against Promissory Note and the holder of such Promissory Notes can meet up their cash requirement through discounting of the instrument.

(4) Financial Institutions may also receive loan(s)/deposit(s) against Term Deposit Receipt (TDR). But such instruments cannot be discounted as they are not negotiable instruments. However in the case of TDR the concerned holders will have to produce a written undertaking to the effect that they will not encash the same before the expiry of minimum 1(one) year term.

(5) Financial Institutions may raise fund by issuing debentures. However in such case they must follow the directives contained in FID Circular 16 dated 25-9-2000, FID Circular 04 dated 21-5-2002 and other relevant rules & regulations.

(b) **Lease/Loan disbursed by the FIs:**

(1) Taking into consideration their business strategy the Financial Institutions will determine the maximum time limit of repayment of loans.

(2) Financial Institutions will follow the directives as stated in Section 14 of Financial Institution Act, 1993 with regard to sanction of lease/loan to individuals/Groups.

(c) **Rate of interest on different types of Loan/deposits and Lease/Loans:**

(1) Financial Institutions, by themselves, will determine the interest rates on different types of loans/deposits received by them and on lease/loan disbursed.

(2) In the case of Lease/Loan disbursed in the same sector, variation in interest rate will be up-to a maximum of 1% depending upon risk analysis.

(c) **Accounting procedure in determining interest on different types of loan/deposits and Lease/Loans:**

The accounting procedure for determining interests payable on loans/deposits and interest receivable on lease/loans, such as (1) application of simple or compound interest rate, (2) frequency in applying interest, (3) using of fixed or floating rate etc. will be determined by the Financial Institutions themselves considering their business strategy. But in all cases the Financial Institutions will inform the depositors/borrowers in writing about the rules and practices related to the concerned loan(s)/deposit(s) and lease/loans.

(d) **Other issues relating to Public Interest:**

(1) The Financial Institutions shall not use any name or undertake such activities, which might convey the impression of it being a bank.

- (2) Financial Institutions are not allowed to open Cash Counter for their transactions. All their cash transactions shall have to be done through banks. This provision will not be applicable in case of Petty Cash being maintained by the Financial Institutions to meet-up their petty expenses.
03. The rules/principles as formulated and applied by the FIs on the basis of the terms and conditions mentioned in the paragraphs (a), (b), (c) and (d) above will have to be submitted to the General Manager, Financial Institutions Department, Bangladesh Bank, Head Office, Dhaka on half-yearly basis (i.e. 1st week of January and July of each year). They will inform Bangladesh Bank about the changes made in the said rules/ principles soon after the changes are made.
04. This Circular is issued under Section 18(Chha) of Financial Institution Act, 1993 and will have immediate effect.

Please acknowledge receipt.

Yours faithfully,
Sd/-
(Md. Yasin Ali)
General Manager
Ph: 7120362