

Reserve Bank of India

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RBI/2007-08/74
DGBA.GAD. No. 20/31.12.010/2007-08
July 2, 2007
All Agency Banks

Dear Sir,

Master Circular on Conduct of Government Business by Agency Banks-Payment of Agency Commission.

Reserve Bank of India has been issuing various Instructions on Agency Commission payable to banks from time to time. These instructions were contained in our master circular RBI/2005-06/105 (DGBA. GAD. (MC)No. 1052/31.12.010/ 2006-07) dated July 19, 2006. We now enclose an updated master circular incorporating important instructions issued on the subject upto June 30,2007. You may also access the circular on our website www.rbi.org.in.

2. Please acknowledge receipt.

Yours faithfully

Sd/- A.S. Kulkarni
Deputy General Manager

Encl: As above

Master Circular on Agency Commission

1. Agency Commission - Revised Rates

- (i) [RBI/2005-06/77 (Ref. DGBA.GAD. No. 379/31.12.2010(C)/2005-06) dated July 25,2005]]
- (ii) [RBI/2005-06/384 (Ref. DGBA.GAD. No. 17585/31.12.2010 (C) /2005-06) dated May 8,2006]]

The rates of agency commission payable to agency banks have been revised from turnover (value) basis to transaction basis w.e.f. July 01, 2005 vide our circular [RBI/2005-06/77 (DGBA, GAD. No. 379/31.12.010 (c)/2005-06) dated July 25, 2005]]. A review in this regard was made on the basis of representations received from the banks. Accordingly, it has been decided to modify the rates as below which would be effective from July 01, 2005:

- a) Receipts Rs. 45/-per transaction
- b) Payments other than pension 9 paise per Rs. 100/- turnover
- c) Pension payments Rs. 60/- per transaction.

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The quality of service rendered by agency banks will be monitored by RBI with special emphasis on service rendered by banks to pensioners.

2. As the agency commission on receipts and pension payments is payable on 'per transaction' basis, the agency banks were advised to maintain necessary records for claiming such commission which shall be made available to Reserve Bank or its authorized agencies for verification at any point of time. For calculating the number of transactions, the daily branch scroll rendered to the Government Accounting authorities will be reckoned. Transactions reported in the 'Error scrolls' shall not be eligible for agency commission. Transaction in regard to banks own statutory liability for recovery/payment of various taxes as an assessee will not qualify for payment of agency commission. Prescribed certificate to this effect should be furnished by the banks while claiming the commission.

3. Agency Commission towards Public Provident Fund Scheme, 1968 (PPF) and Senior Citizen Savings Scheme 2004 (SCSS)

[RBI/2006-07/289 (Ref: DGBA.GAD.H-14024/31.12.010/2006-07 dated March 16, 2007)]

The issue of Payment of agency commission by Reserve Bank of India for handling PPF and SCSS was examined in consultation with Government of India and it was decided to follow only one channel of payment of remuneration to banks for handling transactions under PPF and SCSS. Accordingly, Reserve Bank of India will pay agency commission on transactions relating to PPF and SCSS at the following rates:

- | | |
|-------------|--------------------------------|
| a) Receipts | Rs. 45/ per transaction |
| b) Payments | 9 paise per Rs. 100/- turnover |

With, the revision of the rates as above, Government of India will discontinue the payment of remuneration for managing PPF and SCSS.

Agency Commission claims by banks on PPF and SCSS transactions

[RBI/2006-07/408 (Ref: DGBA.CDD.H-16532/15.15.001 /2006-07 dated May 21, 2007)]

4. With a view to bringing uniform practice in claiming of agency commission, in respect of PPF and SCSS transactions, guidelines were issued and a format for claiming the agency commission was prescribed. All agency banks were advised to claim PPF and SCSS in the formats Annex I and II and summary of the claim as per Annex III. The agency commission is payable on PPF w.e.f. July 1, 2005 and on SCSS from April 1,2006. All such claims with its arrears due up to March 31,2007 shall be submitted by agency banks latest by June 10,2007. Since there will be only one channel of agency commission payable, the remuneration, if any, already paid by GOI will be recovered by the Bank.

Government transactions eligible for Agency Commission

5. The following transactions will be eligible for agency commission.

- * Revenue receipts and payments on behalf of the Central /State Governments.
- * Pension payments in respect of Central Government and State Governments.
- * Special Deposit Scheme (SDS) 1975, Public Provident Fund (PPF)
- * Senior Citizen Savings Scheme (SCSS)
- * Any other item of work specifically advised by Reserve Bank as eligible for agency commission (viz. Relief Bonds/Savings Bonds etc. transactions)

6. [RBI/2004/305 (Ref: DGBA.GAD.No. H-262S-2658/31.12.010(c) /2004-05 dated December 17,2004)]

The short term/long term borrowings of State Governments raised directly from financial Institutions and banks etc. are not eligible for agency commission as these transactions are not considered to be in the nature of general banking business. Reserve Bank pays the agency banks separate remuneration as agreed upon for acting as agents for management of Public debt. It is reiterated that transactions arising out of Letter of Credit (L/C) opened by banks on behalf of Ministries/ Departments etc. will not qualify for agency commission.

7.[RBI/2004/64 (Ref: DGBA.GAD.No. H-41 /42.02.001 /2003-04 dated July 22, 2004)]

[RBI/2004/248 (Ref: DGBA.GAD.No. H-1225-1258/42.02.001 /2004-05 dated October 27,2004)]

[RBI/2004-05/344 (Ref : DGBA.GAD.No. H-3613 /42.02.001/2004-05 dated January 13,2004)]

Agency banks paying their own tax liabilities through their own branches or through authorized branches of State Bank of India or offices of Reserve Bank of India wherever they do not have their own authorised direct tax collection branch should indicate the same separately in the scroll. Such transactions will not be eligible for payment of agency commission. Banks should furnish a certificate to the effect that own tax liabilities (TDS, Corporation Tax etc.) paid by it has been excluded while claiming Agency commission.

8. Deduction of TDS on Agency Commission

[DGBA.GAD.No. H-190/31.12.010/2003-04 dated September 14,2003]

It has been decided by Central Board of Direct Taxes that tax would not be required to be deducted by Reserve Bank on the amount of agency commission paid or credited by it to its agents. It is, however, reiterated that agency commission would be taxable in the hands of the

banks concerned as it is part of the bank's income.

9. Format for claiming agency commission by banks

[RBI/2005/147 (Ref : DGBA.GAD.No. H-751-2658/31.12.010(c) /2005-06 dated August 30,2005)]

DGBA.GAD.No. H-19378/31.12.010 (c) /2005-06 dated June 6,2006]]

A format for claiming agency commission by all agency banks has been devised. Further, a separate format for claiming agency commission on account of payment of interest and/or redemption value in respect of Relief Bond/Saving Bond has also been devised. Agency banks are required to submit their claims for agency commission in the prescribed format.

State Bank of India is required to submit their claim in the format prescribed vide our letter DGB A, GAD. No H-754/31.12.010 (C)/2005-06 dated August 30,2005 as amended vide circular dated June 6, 2006 referred to above.

DGBA.GAD.No. H-754/31.12.010(C) /2005-06 dated August 30,2005)]

10. Agency Commission claims submitted by agency banks-common irregularities - charging of penal interest for wrong claims

[RBI/2005/193 (Ref: DGBA.GAD.No. H-4530 /31.12.010 (C) /2005-06 dated October 27, 2005)]

[DGBA.GAD.No. H-11136/31.12.010(C) /2005-06 dated January 31, 2006]]

[DGBA.GAD.No. H-13118/31.12.010 (C) /2005-06 dated March 2, 2006]]

Agency banks were advised about the common irregularities observed in our snap verifications of agency commission claims submitted by a few agency banks. The banks are required to take due care while lodging claims for agency commission and ensure that they are accurate. In order to avoid wrong claims, they should get the information certified by their internal/concurrent auditor. Agency banks will be liable to pay penal interest at Bank rate (as notified by RBI as on 1st May and 1st November each year) plus 2% for any wrong claims of agency commission settled.

11. Agency Commission on special Deposit Scheme

IDGBA.GAD.No. H-11794/31.12.010 (C) /2005-06 dated February 13,2006))

The transactions under SDS - 1975 are eligible for agency commission on par with 'Payments other than pension'. As such, agency banks are eligible for agency commission at the rate of 9 paise per Rs. 100 turnover on such transactions. Since fresh deposits under the scheme are no

longer allowed, the current transactions on account of SDS-1975 would be -

- a) allowing obligatory withdrawals as and when a request in this regard is received from the fund;
- b) interest payment as annual rates and
- c) closure of account as provided for in the Scheme.

12) Agency Commission claimed on the pension transactions.

[DGBA.GAD.No. H-13034/31.12.010 (C) /2006-07 dated February 27, 2007]

Agency banks would be eligible to claim agency commission at the rate of Rs. 60/- per transactions only when the entire work relating to calculation of pension is attended to by the agency bank. If the entire work relating to pension circulations, etc. is attended to by the concerned Government Department/Treasury and the bank branches are required only to credit the amount of pension to the prisoners' accounts maintained with them by a single debit to Government Account, such transaction is to be categorized under 'other than pension payment' and would be eligible for payment of agency commission @ 9 paise per Rs. 100/- turnover.