RBI/2010-11/544

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

Madam / Dear Sir,

Enhancement in gratuity limits - Prudential Regulatory Treatment

Please refer to para 10 of Memorandum attached to our Circular UBD.No.I&L.38/J.1-92/93 dated February 9, 1993 advising UCBs that it is necessary to estimate the liabilities on account of Provident Fund, Pension, Gratuity etc. on actuarial basis and full provision should be made every year for the purpose, in the profit and loss account by the primary co-operative banks.

2. Consequent upon the enhancement in gratuity limits following the amendment to Payment of Gratuity Act 1972, UCBs and their Associations have expressed that it would be difficult to absorb the large amount involved in a single year.

3. The issue has been examined from a regulatory perspective and it has been decided that UCBs may take the following course of action in the matter:

   a. The expenditure, as indicated in paragraph 2 above, may, if not fully charged to the Profit and Loss Account during the financial year 2010-11, be deferred over a period of five years beginning with the financial year ended March 31, 2011 subject to charging to the Profit and Loss Account a minimum of 1/5th of the total amount involved every year.

   b. Such deferment of expenditure due to enhancement of gratuity, will not be permitted in respect of amounts payable to the retired / separated employees.
4. The expenditure so deferred, may be disclosed suitably in the Annual Financial Statements.

5. In view of the exceptional nature of the event, the deferred expenditure would not be reduced from Tier-I capital of UCBs.

6. Please acknowledge receipt of this circular to our Regional Office concerned.

Yours faithfully

(Uma Shankar)
Chief General Manager