V FINANCIAL MARKETS AND FOREIGN EXCHANGE MANAGEMENT

The Reserve Bank continued to engage in developing and deepening domestic financial markets by broadening participation, easing access, strengthening the regulatory framework, streamlining regulations and fostering innovations. Efforts are underway towards internationalisation of the Indian Rupee (INR) through settlement of bilateral trade in local currency.

V.1 During 2023-24, the Reserve Bank undertook several measures to further develop and deepen financial markets through augmentation of the participation base in various segments, facilitation of access and transaction norms, and expansion in the range of financial products, while ensuring market integrity through rigorous surveillance. The Financial Markets Regulation Department (FMRD) issued Directions to the Reserve Bank regulated entities on transition away from the London Interbank Offered Rate (LIBOR) to alternative benchmarks; permitting scheduled commercial banks (SCBs) to set their own limits for borrowing in call and notice money markets within the prudential limits for interbank liabilities prescribed by the Reserve Bank; expanding the list of specified securities under the fully accessible route (FAR) by inclusion of sovereign green bonds; and allowing borrowing and lending of government securities (G-secs). The liquidity management operations of the Reserve Bank evolved in sync with its monetary policy stance. The Reserve Bank ensured orderly financial market conditions despite bouts of volatility in global financial markets.

V.2 The Reserve Bank continued to facilitate external trade and investment, with focus on enhancing the ease of doing business and reduce the compliance burden for regulated entities. Accordingly, the Foreign Exchange Department (FED) reviewed several extant guidelines such as authorisation framework of the authorised persons (APs) under the Foreign Exchange Management Act (FEMA), 1999; rationalisation of liberalised remittance scheme (LRS); rationalisation of guarantee and trade regulations; and supervisory framework for full-fledged money changers (FFMCs) and non-bank Authorised Dealer (AD) Category II.

V.3 Against this backdrop, the rest of the chapter is structured into four sections. The development and regulation of financial markets are covered in section 2. The Reserve Bank's market operations are discussed in section 3. In section 4, the focus is on external trade and payments and measures relating to liberalisation and development of external financial flows. Concluding observations are provided in section 5.

2. FINANCIAL MARKETS REGULATION DEPARTMENT (FMRD)

V.4 The FMRD is entrusted with the development, regulation and surveillance of money, G-secs, interest rate derivatives, foreign exchange, and credit derivative markets. The Department undertook several measures in pursuance of this mandate to fulfil the objectives set for 2023-24.

Agenda for 2023-24

V.5 The Department had set out the following goals for 2023-24:

- Issuance of final Directions mandating exchange of initial margin for non-centrally cleared derivatives (NCCDs) [*Utkarsh* 2.0] (Paragraph V.6);
- Review of the regulatory framework with a view to enhancing operational efficiencies, easing access to the foreign exchange derivative market for users with small foreign exchange (FX) exposures and ensuring that a broader set of customers with the necessary risk management expertise are equipped with the flexibility to manage their hedging programme efficiently (Paragraph V.7); and
- Review of the reporting and disclosure framework for trade repositories (TRs) of over-the-counter (OTC) derivative transactions to enhance market transparency (*Utkarsh* 2.0) [Paragraph V.8].

Implementation Status

V.6 Based on the feedback received, final Directions mandating exchange of initial margin for NCCDs have been issued on May 8, 2024.

V.7 The regulatory framework governing the hedging of FX risks was reviewed and Directions were issued on January 5, 2024.

V.8 A review of the reporting and disclosure framework for the TRs of OTC derivatives was undertaken. Directions for reporting of OTC derivatives were consolidated and rationalised. A framework for dissemination of data on the OTC derivative market has been put in place, based, *inter alia*, on the liquidity and diversity of the participant base in different derivative products.

Major Initiatives

Completing the Transition Away from the LIBOR to Alternative Benchmarks

V.9 With the cessation of publication of all LIBOR settings after June 30, 2023, the Reserve Bank issued a final advisory to its regulated entities in May 2023 advising them to ensure that new transactions are not undertaken by them or by their customers through the LIBOR or the domestic benchmark - the Mumbai Interbank Forward Outright Rate (MIFOR). The modified MIFOR (MMIFOR), developed as an alternative to the MIFOR, was notified as a 'significant benchmark'.

Borrowing Limits for Scheduled Commercial Banks (SCBs) in Call and Notice Money Markets

V.10 Pursuant to the announcement made in the Statement on Developmental and Regulatory Policies of the Reserve Bank on June 8, 2023, SCBs (excluding small finance banks and payments banks) were allowed greater flexibility in money market operations by permitting them in June 2023 to set their own limits for borrowing in the call and notice money markets within the prescribed prudential limits for interbank liabilities.

Development of the Non-Deliverable Derivative Contract (NDDC) Market

V.11 As announced in the Statement on Developmental and Regulatory Policies of the Reserve Bank on April 6, 2023, AD Category-I banks operating International Financial Services Centre (IFSC) Banking Units (IBUs) were permitted in June 2023 to offer INR NDDCs to resident non-retail users for the purpose of hedging. The objective is to develop the onshore market for non-deliverable INR derivatives and also to provide them with the flexibility to efficiently design their hedging programmes.

Inclusion of Sovereign Green Bonds Under the Fully Accessible Route (FAR)

V.12 Non-residents were permitted to invest in specified categories of G-secs without any restrictions under the FAR with effect from April 1, 2020. The list of specified securities under the FAR was expanded on November 8, 2023 to include all sovereign green bonds issued by the Government of India (GoI) in 2023-24.

Alert List of Entities Facilitating Unauthorised Forex Trading Platforms

V.13 The 'Alert List' of unauthorised entities understood to be offering or promoting unauthorised entities/electronic trading platforms (ETPs) [published in September 2022] was updated in June 2023 and November 2023.

Introduction of Securities Lending and Borrowing in G-secs

V.14 Pursuant to the announcement made in the Statement on Developmental and Regulatory Policies of the Reserve Bank on February 8, 2023, securities lending and borrowing in G-secs was permitted in December 2023 with the objective of providing investors an avenue to deploy their idle securities to enhance portfolio returns and deepen the G-sec market.

Review of Regulatory Framework for Financial Benchmark Administrators (FBAs)

V.15 The regulatory framework for FBAs - first issued in June 2019 - was reviewed and a comprehensive risk-based regulatory framework covering administration of all benchmarks related to financial markets regulated by the Reserve Bank was implemented in December 2023 pursuant to an announcement made in the Statement on Developmental and Regulatory Policies on August 10, 2023. The framework requires FBAs to comply with governance and oversight arrangements, controls and transparency and eschew conflict of interest so as to assure the accuracy and integrity of benchmarks.

Review of the Directions on Commercial Paper (CP) and Non-Convertible Debentures (NCDs)

V.16 Directions on CP and NCDs of original maturity up to one year were reviewed and revised Directions were issued in January 2024 to bring consistency across products in terms of issuers, investors and other participants in these markets.

Introduction of Bond Forwards on G-secs

V.17 In order to expand the suite of interest rate derivatives available in the domestic financial market and to enable market participants, especially long-term investors to manage their cash flows and interest rate risk, draft Directions permitting bond forwards on G-secs were issued in December 2023 to solicit feedback from stakeholders.

Review of the Regulatory Framework for Hedging of Foreign Exchange Risks

V.18 The regulatory framework governing foreign exchange derivative transactions was comprehensively reviewed and revised Directions were issued on April 7, 2020. Based on the experience gained in this regard, the regulatory framework for hedging of FX risks was reviewed and revised Directions were issued on January 5, 2024. The Directions consolidated the previous rules and notifications in respect of all types of transactions - OTC and exchange traded - under a single Master Direction, expanded the suite of permitted FX derivative products and refined the user classification framework to enable a larger set of users with the necessary risk management capabilities to efficiently manage their risks.

Inclusion of Indian G-secs in Global Bond Index

V.19 An important development in greater participation of foreign investors in the domestic bond market has been the announcement about the inclusion of Indian Government Bonds (IGBs) in major global bond indices (Box V.1).

Box V.1

Salient Developments in the Indian Government Securities Market

The Indian bond market is one of the largest among emerging market economies (EMEs) with an estimated size of US$ 1.2 trillion. Spurred by reforms undertaken over the years, the gilt market in India has gained depth, liquidity and vibrancy, while exhibiting resilience. The FAR route for investment by foreign portfolio investors (FPIs) in certain specified G-secs without any macroprudential limits was introduced in April 2020. The basket of G-secs under the FAR has been periodically expanded with tenors of 5, 7, 10, 14 and 30 years as well as sovereign green bonds. Measures to facilitate operational ease of investment by FPIs were also undertaken, including permitting banks to lend to FPIs for meeting margin requirements for their transactions in G-secs, and providing an extended window post closure of onshore market hours for reporting of trades. In parallel, access of non-residents, including FPIs, to domestic derivative markets has been enabled/eased to facilitate hedging of interest rate, foreign exchange and credit risks by these entities.

Following the introduction of the FAR in April 2020 and related market reforms, Indian Government Bonds (IGBs) have been under consideration for inclusion in major global bond indices. In 2021, IGBs were placed on the watchlist for inclusion in global bond indices by two major index providers. On September 21, 2023 one index provider announced the inclusion of IGBs in its emerging markets suite of indices with effect from June 2024, with government bonds issued under FAR and meeting the laid-out inclusion criteria,[1] eligible for inclusion in the index. The inclusion is expected to take place in a staggered manner over a period of 10 months (starting June 28, 2024 through March 31, 2025) with one per cent incremental weight being added each month, thus, giving India an overall weight of 10 per cent in the index. On January 8, 2024, another index provider launched consultation to solicit feedback on the proposed inclusion of the India FAR bonds in its emerging market index. This was followed by the announcement on March 5, 2024 that IGBs covered under the FAR and meeting the laid-out inclusion criteria[2] would be included in its Emerging Market (EM) Local Currency Government Index and related indices. The bonds will initially be incorporated with a weight equivalent to 10 per cent of their full market value as of January 31, 2025, and will be increased in monthly increments of 10 per cent, progressively increasing to full market value by October 2025.

Market participants estimate that the inclusion of IGBs in the global bond indices would result in increased demand for G-secs from foreign investors and is expected to support yields, with potential positive spillovers to credit costs for corporates as well. While boosting the liquidity of the G-secs market and improving the price discovery process, the demand for hedging related products in the onshore market is also expected to increase.

Increased FPI inflows and greater non-resident participation in domestic markets could, however, add to volatility, especially during global risk-off situations. These risks are likely to be contained as index based investments are passive and non-resident investment in Indian G-secs at around 2 per cent of the outstanding stock is low in absolute terms and also relative to most Asian emerging market peers.

1 The index provider *vide* its 2023 EM Index Governance Results dated September 21, 2023, indicated that all FAR bonds with a notional outstanding above US$ 1 billion (equivalent) and at least 2.5 years of residual maturity shall be eligible for inclusion in the index. Further, India's local currency debt rating of BBB- / BBB- / Baa3 (Fitch/S&P/Moody's), makes it eligible for inclusion in the 'GBI-EM Global Diversified IG 15% Cap' index.

2 As per the inclusion criteria, securities must have a minimum amount outstanding of INR 10 billion and follow the general rules of the Emerging Market Local Currency Index such as requiring bonds to have a minimum maturity of one year.

Agenda for 2024-25

V.20 For the year 2024-25, the Department has set the following goals:

- Better aggregation and transparency under the legal entity identifier (LEI) requirements for reporting of OTC derivative transactions; global identifiers for OTC derivative transactions (*e.g.,* unique transaction identifier) [*Utkarsh* 2.0];
- Review of the regulatory framework for ETP authorisation for financial market instruments regulated by the Reserve Bank in sync with the evolution of the domestic financial markets and global best practices; and
- Development of a framework for self-regulatory organisations (SROs) for financial markets regulated by the Reserve Bank.

3. FINANCIAL MARKETS OPERATIONS DEPARTMENT (FMOD)

V.21 The FMOD is primarily responsible for the conduct of liquidity management operations in alignment with the stance of monetary policy and for ensuring orderly conditions in the forex market through both onshore and offshore market operations.

Agenda for 2023-24

V.22 During the year, the Department had set out the following goals:

- Liquidity management operations in line with the monetary policy stance (Paragraph V.23);
- Foreign exchange operations to curb undue volatility in the USD/INR exchange rate (Paragraph V.24); and
- Policy-oriented research and analysis on financial markets so as to guide market operations strategies on an ongoing basis (*Utkarsh* 2.0) [Paragraph V.25].

Implementation Status

V.23 During 2023-24, liquidity management[3] was conducted through two-way operations - variable rate reverse repo (VRRR) and variable rate repo (VRR) auctions - in line with the evolving liquidity situation. The 14-day VRRR auction remained the main operation in H1:2023-24 supplemented by incremental cash reserve ratio (I-CRR) amidst surplus liquidity conditions stemming from the withdrawal of ₹2000 banknotes. The Reserve Bank also conducted VRR auctions of various tenors in response to frictional liquidity conditions associated with advance tax and goods and services tax (GST) outflows. Calibrated withdrawal of the I-CRR from early September eased liquidity conditions. The build-up of government cash balances and highly skewed liquidity distribution in the system prompted banks to take recourse to marginal standing facility (MSF) in Q3:2023-24, while also parking funds under the standing deposit facility (SDF). In response, the Reserve Bank undertook fine-tuning VRR operations of various tenors and allowed reversal of liquidity facilities under both SDF and MSF even during weekends and holidays. In Q4:2023-24, the Reserve Bank managed liquidity through the second-leg of a USD/INR sell buy swap auction for US$ 5 billion that was conducted on March 8, 2022, and main and fine-tuning VRR auctions of various tenors.

[3] Details relating to liquidity management operations are covered in Chapter III of this Report.

V.24 The INR experienced bouts of volatility stemming from global financial markets due to the monetary policy stance of the US Fed and lingering geopolitical tensions. While FPI inflows, softening of crude oil prices and easing of current account deficit supported the INR, a strong USD reflecting safe haven demand in the face of geopolitical tensions and expectations of higher interest rates for longer period in the US imposed downward pressure on the INR. The Reserve Bank intervened in the forex market through operations in the onshore/offshore OTC and exchange traded currency derivatives (ETCDs) segments to maintain orderly market conditions and contain excessive volatility in the exchange rate.

V.25 The Department undertook research and analytical work in areas covering portfolio flows and exchange rate volatility; volatility episodes and India's forex reserves; and drivers of commercial paper rate spreads over the relevant benchmark.

Agenda for 2024-25

V.26 During 2024-25, the Department plans to achieve the following goals:

- Technological upgradation to facilitate smoother and more flexible liquidity management operations;
- Issuance of consolidated instructions on liquidity adjustment facility;
- Enhance intervention toolkit to undertake focused foreign exchange operations to curb undue volatility in the USD/INR exchange rate; and
- Policy-oriented research and analysis on financial markets to guide market operations strategies on an ongoing basis (*Utkarsh* 2.0).

4. FOREIGN EXCHANGE DEPARTMENT (FED)

V.27 The FED is entrusted with the responsibility of fulfilling the objectives envisaged under the Foreign Exchange Management Act (FEMA), 1999. Accordingly, the Department continued its endeavours to facilitate external trade and payments during the year through framing of simple yet comprehensive, time-consistent and more principle-based policies to enhance the ease of doing business and reduce compliance burden. A review/rationalisation of the extant regulations/rules/notifications issued under FEMA, in alignment with the prevailing macroeconomic conditions and evolving business practices and models, was also undertaken during the year.

Agenda for 2023-24

V.28 The Department had set out the following goals for 2023-24:

- Review of Compounding Proceedings Rules under the Foreign Exchange Management Act (FEMA), 1999 (*Utkarsh* 2.0) [Paragraph V.29];
- Review of the authorisation framework of authorised persons (APs) under FEMA (*Utkarsh* 2.0) [Paragraph V.30];
- Rationalisation of the Liberalised Remittance Scheme (LRS) [*Utkarsh* 2.0] (Paragraph V.31);
- Rationalisation of regulations on Foreign Exchange Management (Manner of Receipt and Payment) Regulations, 2016 (*Utkarsh* 2.0) [Paragraph V.32];
- Review of guidelines related to Rupee accounts of non-residents (*Utkarsh* 2.0) [Paragraph V.33];

- Rationalisation of Foreign Exchange Management (Mode of Payment and Reporting of Non-Debt Instruments) Regulations, 2019 (Paragraph V.34);
- Review of supervisory framework for full-fledged money changers and non-bank AD Category-II (Paragraph V.35);
- Rationalisation of guarantee regulations (Paragraph V.36); and
- Rationalisation/simplification of trade guidelines (*Utkarsh* 2.0) [Paragraph V.37].

Implementation Status

V.29 A review of the Foreign Exchange (Compounding Proceedings) Rules, 2023 [to supersede the extant Foreign Exchange (Compounding Proceedings) Rules, 2000] is under process. The review includes, *inter alia*, enhancing monetary ceilings, *i.e.,* the sum involved in such contraventions, for compounding them at various ranks of the Reserve Bank officers, enabling electronic and other online modes of payment of compounding fees, and streamlining the standard operating procedure (SOP) for cases involving various stages of investigation/adjudication by Directorate of Enforcement, Department of Revenue, Ministry of Finance, GoI.

V.30 The licensing framework for APs issued under FEMA was last reviewed in March 2006. Since then, the number of APs has gone up considerably, while new business models have also emerged. Keeping in view the progressive liberalisation under FEMA, increasing integration of the Indian economy with the global economy, digitisation of payment systems and evolving institutional structure over the last two decades, it was decided to rationalise and simplify the licensing framework for APs to effectively meet the emerging requirements. Accordingly, the draft licensing framework for APs under FEMA was placed on the Reserve Bank's website on December 26, 2023, seeking comments/feedbacks from all stakeholders. The draft framework would be finalised based on the feedback received and after due internal examination as well as consultation with the GoI.

V.31 Under LRS, ADs may freely allow remittances by resident individuals up to US$ 2,50,000 per financial year (April-March) for any permitted current or capital account transaction. A comprehensive review to address various issues in the scheme covering, *inter alia*, the legal framework, annual limit, permitted purposes, and repatriation requirements under the scheme is currently underway.

V.32 On December 21, 2023, a significant step was taken towards promoting the internationalisation of INR and supporting local currency settlement with partner countries through the issuance of Foreign Exchange Management (Manner of Receipt and Payment) Regulations, 2023. The rationalised regulations, *inter alia,* include the following major amendments:

- The regulations have been simplified thereby improving their readability and comprehension;
- The previous regulations allowed receipt/ payment in foreign currency only for freely convertible currencies. The revised regulations enable receipt/payment in any foreign currency, which would aid in local currency settlement with the partner countries; and
- The previous regulations allowed receipt/ payment in INR for all cross-border

transactions (current as well as capital) for non-Asian Currency Union (ACU) countries, whereas such receipt/payment was not allowed in respect of some ACU countries (*viz.,* Bangladesh, Myanmar, Pakistan and Maldives). The revised regulations now enable INR settlement for all ACU countries with regard to non-trade related transactions, and for trade related transactions in accordance with the Directions issued by the Reserve Bank from time to time.

V.33 To promote the internationalisation of INR and support local currency settlement with partner countries, it is necessary to liberalise the regulations relating to INR accounts for non-residents. Accordingly, the Foreign Exchange Management (Deposit) Regulations [FEMA 5(R)], regarding INR accounts by non-residents are currently being reviewed in consultation with the government.

V.34 The proposals to rationalise the mode of payment and reporting requirement related regulations, currently prescribed in terms of FEMA Regulation No. 395, are under review in the Department. The review would include necessary additions/modifications in the extant framework on account of various amendments notified by Government of India under the Foreign Exchange Management (Non-Debt Instruments) Rules, 2019.

V.35 A comprehensive review of supervisory framework for FFMCs and non-bank AD Category-II is being undertaken in sync with the ongoing review of the licensing framework for APs under FEMA. The revised guidelines/ instructions will be issued in due course.

V.36 Regulations framed under Foreign Exchange Management (Guarantees) Regulations, 2000 are being reviewed to reflect the changing macroeconomic conditions, business needs and issues faced by persons resident in India, while conducting cross-border transactions. The exercise also intends to improve ease of doing business by minimising the need for approvals.

V.37 To simplify the existing regulatory framework for trade transactions by moving towards a more principle-based approach, improving ease of doing business, and dispensing with redundant provisions/processes and various approvals, the rationalisation/simplification of trade guidelines is under process.

Major Initiatives

Operationalisation of 'APConnect' – Online Application for FFMCs and Non-bank AD Category-II

V.38 As part of the endeavour towards digitalisation to simplify process and enhance ease of doing business, a new software application, 'APConnect', was successfully implemented in April 2023. The application, inter alia, facilitates processing of requests for licensing of FFMCs and non-bank AD Category-II entities, authorisation of Money Transfer Service Scheme (MTSS) agent, renewal of existing licence/authorisation and for submission of various statements/returns by APs. The system has significantly transformed the authorisation process, resulting in operational efficiencies, cost savings, reduced paperwork and manpower requirements for all stakeholders. It has also led to a marked improvement in the handling of associated work across regional offices (ROs) of the Reserve Bank.

AD Category-II - Online Submission of Form A2

V.39 As per the guidelines outlined in Master Direction on LRS, and Master Direction on Other Remittance Facilities, applicants are required to submit Form A2 while undertaking remittances other than for imports and intermediary trade transactions. Additionally, customers of AD banks offering internet banking facilities can submit Form A2 online for remittances up to US$ 25,000 (or its equivalent) by individuals and up to US$ 1,00,000 (or its equivalent) by corporates, in accordance with the Master Direction on Other Remittance Facilities. In this context, effective April 12, 2023, AD Category-II entities were also permitted to allow online submission of Form A2 to improve customer convenience and turnaround time.

Remittances to IFSCs under the LRS

V.40 The Reserve Bank had allowed remittances up to US$ 2,50,000 under LRS to IFSCs for making investments in securities, other than those issued by entities/companies resident in India, but outside IFSC, in February 2021. There were, however, certain differences in the features of the LRS remittance facility applicable to IFSCs *vis-à-vis* foreign jurisdictions. For instance, resident individuals could maintain only a non-interest-bearing foreign currency account in IFSCs and any idle funds lying in such accounts had to be repatriated within 15 days. On a review and with an objective to align the LRS for IFSCs *vis-à-vis* other foreign jurisdictions, the condition of repatriating any funds lying idle in the account beyond a period of 15 days from the date of its receipt was withdrawn and was aligned with the period applicable for such remittances to other foreign jurisdictions, *i.e.*, 180 days with effect from April 26, 2023.

V.41 Further, IFSCs are treated as foreign jurisdictions only for the purposes of financial services and, therefore, the remittances towards current account transactions like travel, education, gift, *etc.*, or for capital account transactions like purchase of immovable property are not applicable for IFSCs. LRS remittances to IFSCs were permitted only for making investments in securities, *vide* circular dated February 16, 2021. The GoI *vide* gazette notification dated May 23, 2022 has notified select courses offered by foreign universities/institutions in IFSC, as financial services. Therefore, with effect from June 22, 2023, remittances by resident individuals for payment of course fees to foreign universities/institutions in IFSCs have been enabled under LRS for the defined purpose, *i.e.*, 'studies abroad'.

Levy of Charges on Forex Prepaid Cards/Store Value Cards/Travel Cards

V.42 A few APs have been levying charges/ fees on forex pre-paid card/store value cards, payable in India for services provided to customers in India in foreign currency (FCY). These transactions between the APs and the residents are essentially domestic transactions between two residents, and they should not result in any foreign exchange risk being borne by the resident. Accordingly, instructions have been issued advising APs that any fees/charges payable in India must be denominated and settled in INR only.

Guidelines on Import of Silver by Qualified Jewellers as Notified by the IFSC Authority (IFSCA)

V.43 Pursuant to the Directorate General of Foreign Trade (DGFT) notification dated October 11, 2023, wherein qualified jewellers (as notified by IFSCA) are permitted to import silver under specific Indian Trade Classification (ITC) based on Harmonised System (HS) codes through India International Bullion Exchange IFSC Limited (IIBX), in addition to nominated agencies as notified by the Reserve Bank (in case of banks) and DGFT (for other agencies), AD banks have been permitted to allow qualified jewellers (as notified by IFSCA) to remit advance payment for 11 days for import of silver through IIBX in IFSC, subject to specified conditions, from November 10, 2023.

International Trade Settlement in INR - Opening of Additional Current Account for Exports Proceeds

V.44 To provide greater operational flexibility to the exporters, AD Category-I banks maintaining special rupee vostro account (SRVA) as per the provisions of the Reserve Bank circular dated July 11, 2022 are permitted to open an additional special current account for their exporter constituent exclusively for settlement of their export transactions, from November 17, 2023.

CIMS Project Implementation - Discontinuation of Submission in Legacy eXtensible Business Reporting Language (XBRL)

V.45 With the launch of the Reserve Bank's next generation data warehouse, *viz.,* centralised information management system (CIMS) on June 30, 2023, the submission of seven returns by AD Category-I banks through the XBRL site has been discontinued and shifted to the CIMS platform.

Guidelines on Import of Gold by Tariff Rate Quota (TRQ) Holders under the India-UAE CEPA as Notified by the IFSC Authority (IFSCA)

V.46 Pursuant to the DGFT notification dated November 20, 2023, AD banks have been permitted to allow valid TRQ holders under the India-UAE Comprehensive Economic Partnership Agreement (CEPA), as notified by the IFSCA, to remit advance payment for 11 days for import of gold through IIBX against the TRQ, starting from January 31, 2024, subject to directions mentioned in A.P. (DIR Series) circular dated May 25, 2022.

Conducting Awareness Programmes and Creation of Digital Content

V.47 As part of awareness initiatives, the Department has been conducting workshops in various ROs of the Reserve Bank to supplement the initiative of simplification of regulations being carried out at the central office. In addition, the Department conducted workshops for APs and FEMA exhibition-cum-townhall events during the year, where trade and industry bodies and users of foreign exchange participated. These awareness programmes are also being used by the ROs to explain the recent policy changes and obtain feedback on ground-level implementation.

Delegation of Powers to AD Banks and ROs

V.48 As part of the exercise to delegate powers to AD banks, mainly to improve customer service/turnaround time and also to enable the Department to focus on policy issues, the following measures were undertaken:

- Keeping with the spirit of liberalisation, and with a view to enhancing the ease of doing business, late submission fee (LSF) concept was introduced in the Foreign Exchange Management (Overseas Investment) Regulations, 2022, implemented at seven identified ROs (*viz.,* Ahmedabad, Bengaluru, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi). Subsequently, to further streamline the operational procedure and to reduce the turnaround time for processing of LSF applications, the process was simplified by enabling online processing and online payment modes for collection of LSF amount. Accordingly, a revised version of the SOP has been issued for feedback from the seven designated ROs; and

- Earlier, overseas investment transactions reported on the Overseas Investment Division's (OID) application with delay required ratification from the Reserve Bank. With the introduction of online processing of LSF applications under OID application, powers to take such transactions on record have been delegated to AD banks, subject to payment of LSF, wherever applicable. The measure is expected to reduce the time for ratifying such delayed reporting and enable faster processing of subsequent reporting.

Agenda for 2024-25

V.49 With a focus on achieving the milestones set under the Reserve Bank's medium-term strategy framework, the Department's strategy for 2024-25 will be to consolidate and carry forward all the above initiatives. With emphasis on continuous synchronisation of the FEMA operating framework with the evolving macroeconomic environment, rationalisation of various guidelines will be of primary focus. Accordingly, the Department has finalised the following strategic action plan for the year 2024-25:

- Review of the authorisation framework for APs under Foreign Exchange Management Act, 1999 (*Utkarsh* 2.0);
- Liberalisation of external commercial borrowing (ECB) framework;
- 'Go-live' for phase I of software platform for ECBs and trade credits reporting and approval (SPECTRA) project;
- Rationalisation of regulations for export of goods and services (*Utkarsh* 2.0);
- Review of the supervisory framework of APs;
- Rationalisation of Foreign Exchange Management (Guarantee) Regulations;
- Rationalisation of Foreign Exchange Management (Mode of Payment and Reporting of Non-Debt Instruments) Regulations;
- Internationalisation of INR:
    - o Permitting opening of INR account outside India by persons resident outside India (PROIs) [*Utkarsh* 2.0];
    - o INR lending by Indian banks to PROIs; and
    - o Enabling foreign direct investment (FDI) and portfolio investment through special accounts [*viz.,* special non-resident rupee (SNRR) and special rupee vostro account (SRVA)].
- Making a framework for a comprehensive integrated reporting of forex transactions;
- Measures to improve the role of GIFT City[4] at Gandhinagar, Gujarat *vis-à-vis* other international financial centres:
    - o Encouraging the trading of FCY-INR pairs, for different foreign currencies; and

[4] Gujarat International Finance Tec-City.

- o Review of the IFSC regulations under FEMA.

- Review of Compounding Proceedings Rules, under the Foreign Exchange Management Act (FEMA), 1999 (*Utkarsh* 2.0);
- Rationalisation of the LRS (*Utkarsh* 2.0); and
- Rationalisation of inward remittance schemes, *viz.,* MTSS and Rupee Drawing Arrangement (RDA) [*Utkarsh* 2.0].

5. CONCLUSION

V.50 During the year, the Reserve Bank undertook several measures towards enhancing transparency in financial markets, expanding investor base and strengthening regulatory framework in line with evolving business practices and models, with an emphasis on easing compliance burden on regulated entities. The announced inclusion of Indian government bonds in global bond indices is expected to have a salutary impact on the government securities market in terms of enhancing liquidity, price discovery and diversity in participation base. Rationalisation of regulations towards promoting the internationalisation of the INR was undertaken to enable the settlement of bilateral trade in local currencies. Going forward, the liquidity operations would continue to be in sync with the stance of the monetary policy, while the foreign exchange operations would be guided by the objective of ensuring orderly movements in the exchange rate of the Rupee.