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MONETARY AND CREDIT INFORMATION REVIEW

Master Directions

In a bid to simplify the process of issuing regulations, the Reserve Bank of India will, from January 1, 2016 issue all its instructions to banks by way of Master Directions. The process of issuing Master Directions involves issuing one Master Direction for each subject matter covering all instructions on that subject. Any change in the rules, regulation or policy will be communicated during the year by way of circulars. The Master Directions will be updated suitably and simultaneously whenever there is a change in the rules/regulations or there is a change in the policy. All the changes will get reflected in Master Directions available on the RBI website along with the dates on which changes are made. Explanations of rules and regulations will be issued by way of Frequently Asked Questions (FAQs) after issue of the Master Directions in easy to understand language wherever necessary. The existing set of Master Circulars issued on various subjects will stand withdrawn with the issue of the Master Direction on the subject.

Banking Supervision

RBI operationalises Fraud Registry

Operationalisation of Central Fraud Registry

The Reserve Bank has operationalised a Central Fraud Registry (CFR) with effect from January 20, 2016. Operational instructions on its use have been issued to banks. The Central Fraud Registry was created in pursuance of the announcement made by Governor in his Fourth Bi-monthly Monetary Policy Statement, 2014-15 stating:

"Along with early detection mechanisms for frauds, a Central Fraud Registry is also proposed to be created simultaneously as a searchable centralised database for use by banks."

Revision of Limits in reporting of Fraud Cases

The Reserve Bank has brought in certain changes in the fraud reporting mechanism to its regional offices/Central Fraud Monitoring Cell (CFMC). The changes include:

- Frauds of ₹ 0.1 million and above but below ₹ 50 million will be monitored by the respective regional office of the Reserve Bank under whose jurisdiction the Head Office of the bank falls / Senior Supervisory Manager (SSM) of the bank. Frauds of ₹ 50 million and above will be monitored by CFMC, Bengaluru, and
- Flash reports are to be sent in fraud cases of ₹ 50 million and above to the Chief General Manager-in-charge, Department of Banking Supervision, Central Office with a copy to CFMC at Bengaluru as against the present limit of ₹ 10 million and above.

Further, the Reserve Bank advised banks/financial institutions (FIs) not to send hard copies of the Fraud Monitoring Returns (FMR-1). They should, instead, submit a monthly certificate to the effect that soft copy of all the frauds of ₹ 0.1 million and above, to be reported to the Reserve Bank in a month, has been emailed to dbscofrmc@rbi.org.in. The certificate should contain serially the fraud number, name of the party, amount involved and the date of sending the soft copy to the Reserve Bank. The certificate may be sent to CFMC, Bengaluru with a copy to the respective regional office of the Reserve Bank under whose jurisdiction the Head Office of the bank falls/SSM of the bank, within seven days from the end of the month.

The changes came into effect on January 21, 2016. (https://rbi.org.in/Scripts/NotificationUser.aspx?Id=10235&Mode=0)

Banking Regulation

Non-Fund Based Facility to Non-constituent Borrowers

In view of recent developments in strengthening the system of collection and maintenance of credit information, the Reserve Bank on January 7, 2016, permitted scheduled commercial banks to grant non-fund based facilities including Partial Credit Enhancement (PCE) to those customers, who do not avail any fund based facility from any bank in India, subject to the following conditions:

a) Board Approved Policy - Banks shall formulate a comprehensive Board approved loan policy for grant of non-fund based facility to such borrowers.

b) Verification of Customer Credentials - The banks shall ensure that the borrower has not availed any fund based facility from any bank operating in India. However, at the time of granting non-fund based facilities, banks shall obtain declaration from the customer about the non- fund based credit facilities already enjoyed by them from other banks.

c) Credit Appraisal and Due Diligence - Banks shall undertake the same level of credit appraisal as has been laid down for fund based facilities.

d) Compliance with KYC Norms / AML Standards / CFT / Obligation of banks

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under PMLA, 2002 - The instructions/ guidelines on Know Your Customer (KYC) Norms / Anti-Money Laundering (AML) Standards / Combating of Financing of Terrorism (CFT) applicable to banks, issued by the Reserve Bank from time to time, shall be adhered to in respect of all such credit facility.

e) Submission of Credit Information to CICs - Credit information relating to grant of such facility shall mandatorily be furnished to the Credit Information Companies (specifically authorised by the Reserve Bank). Such reporting shall be subject to the guidelines under Credit Information Companies (Regulation) Act, 2005.

f) Exposure Norms - Banks shall adhere to the exposure norms as prescribed by the Reserve Bank from time to time.

As earlier, banks are, however, prohibited from negotiating unrestricted letters of credit (LCs) of non-constituents on Loans and Advances - Statutory and Other Restrictions. In cases where negotiation of bills drawn under LC is restricted to a particular bank and the beneficiary of the LC is not a constituent of that bank, the bank shall have the option to negotiate such LCs, subject to the condition that the proceeds are remitted to the regular banker of the beneficiary.(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10212&Mode=0)

Banks can now offer Products through their ATMs

With a view to providing operational freedom to banks, the Reserve Bank on January 14, 2016, allowed banks to offer all their products and services through the ATM channels provided the technology permits offering the product and service, and adequate checks are put in place to prevent the channel from being misused to perpetuate frauds on the banks/other genuine customers. Earlier, the Reserve Bank had imposed certain restrictions on the facilities, which can be provided through off site ATMs of banks.(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10224&Mode=0)

Clarification on Basel III Capital Regulations

The Reserve Bank, on January 14, 2016, re-worded the 'Criteria for Inclusion of Perpetual Debt Instruments (PDI) in Additional Tier 1 Capital' of the Master Circular on Basel III Capital Regulations to remove any potential ambiguity and to fully reflect the intent of the amendment. The clause says:

"Coupons must be paid out of distributable items. In this context, coupon may be paid out of current year profits. However, if current year profits are not sufficient, coupon may be paid subject to availability of sufficient revenue reserves (those which are not created for specific purposes by a bank) and / or credit balance in profit and loss account, if any.

However, payment of coupons on Perpetual Debt Instruments (PDIs) from the revenue reserves is subject to the issuing bank meeting minimum regulatory requirements for CET1, Tier 1 and Total Capital ratios at all times and subject to the requirements of capital buffer frameworks (i.e. capital conservation buffer, countercyclical capital buffer and Domestic Systemically Important Banks).

Banks must ensure and indicate in the offer document that they have full discretion at all times to cancel distributions / payments in order to meet the eligibility criteria for perpetual debt instruments."

These instructions are applicable with immediate effect.(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10221&Mode=0)

Permissible Activities by IBUs revised

The Reserve Bank on January 7, 2016, permitted IFSC Banking Units (IBUs) to open foreign currency current accounts of units operating in the International Financial Services Centres (IFSC) and of non-resident institutional investors to facilitate their investment transactions. It is again clarified that the IBUs cannot raise liabilities from retail customers including high net worth individuals (HNIs). Also, no cheque facility will be available for holders of current accounts in the IBUs. All transactions through these accounts must be undertaken via bank transfers.

Further, as per the amended norms, the Reserve Bank will not prescribe any limit for raising short-term liabilities from banks. However, the IBUs must maintain liquidity coverage ratio (LCR) as applicable to Indian banks on a stand-alone basis and strictly follow the liquidity risk management guidelines issued by the Reserve Bank to banks. Further, NSFR will also be applicable to the IBUs as and when it is applied to Indian banks.

With a view to providing greater flexibility to the IBUs in their business transactions, the Reserve Bank also advised that exposure ceiling for IBUs shall be 5 percent of the parent bank's Tier-I capital in case of a single borrower and 10 percent of parent bank's Tier-1 capital in the case of a borrower group.(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10213&Mode=0)

RBI amends Gold Monetisation Scheme

The Reserve Bank on January 21, 2016, amended its Master Direction on Gold Monetisation Scheme. The modifications have been made in consultation with Central Government to make the Scheme more customer-friendly. The amended norms are:

- Gold deposits made by depositors in short-term bank deposits (STBD) scheme for a period of one-three years would accrue interest in gold units. This is a change from the earlier norm where customers had a choice of collecting their interest in cash or gold during the time of redemption.
- In the case of medium and long term gold deposits, where medium term deposits have a five-seven year term and long-term deposits have a 12-15 year term, the interest will be calculated in rupees with reference to the value of gold at the time of deposit while the principal will be denominated in gold.
- The depositors will now be able to withdraw medium term and long term government deposits pre-maturely after the minimum lock-in period of three years in the case of medium term deposits and after five years in the case of long term deposits. However, there will be penalty in the form of lower rate of interest for premature withdrawals depending upon the actual period for which the deposit has run.
- In the case of large tenders of gold, gold can be deposited directly with refiners wherever they have the assaying capacity. This will reduce the time lag between the time the raw gold is deposited and it starts bearing interest.
- The Government will pay the participating banks a total commission of 2.5 per cent (1.5 per cent handling charges and 1 per cent commission) in the first year.

The Scheme will be reviewed regularly based on feedback so as to address any implementation issue and to make it more customer-friendly. (https://rbi.org.in/Scripts/NotificationUser.aspx?Id=10240&Mode=0)

Sale of India Gold Coin (IGC)

The Reserve Bank, on January 21, 2016, allowed the designated commercial banks as defined in the Master Direction on Gold Monetisation Scheme, dated October 22, 2015, to sell the India Gold Coins(IGCs) minted by Metals and Minerals Trading Corporation of India (MMTC). The terms and conditions shall be as per the contract between the designated bank and MMTC. The current restriction on selling of imported gold coin by the banks as contained in FED (AP. Dir) circular No.79 dated February 18, 2015 will continue.

MMTC has been authorised by the Central Government to manufacture India Gold Coins (IGC) with Ashok Chakra and supply these coins to the domestic market. MMTC has clarified to the Reserve Bank that the gold used for the IGC will be only that mobilised domestically under the existing Gold Deposit Scheme and Gold Monetisation Scheme.(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10238&Mode=0)

Debt Management

Sovereign Gold Bonds 2015-16

The Government of India, in consultation with the Reserve Bank, on January 14, 2016, announced that the Sovereign Gold Bonds, 2016 ("the Bonds") will be open for subscription from January 18, 2016 to January 22, 2016. Scheduled commercial banks (excluding RRBs), designated Post Offices (as may be notified) and Stock

Holding Corporation of India Ltd (SHCIL) are authorised to receive applications for the Bonds either directly or through agents. The terms and conditions of the issuance of the Bonds shall be as follows:

Eligibility for Investment - The Bonds under this Scheme may be held by a person resident in India, being an individual, in his capacity as such individual, or on behalf of minor child, or jointly with any other individual. The bond may also be held by a Trust, Charitable Institution and University.

Form of Security - The Bonds shall be issued in the form of Government of India Stock and the investors will be issued a Holding Certificate The Bonds shall be eligible for conversion into de-mat form. Date of issuance shall be February 8, 2016.

Denomination - The Bonds shall be denominated in units of one gram of gold and multiples thereof. Minimum investment in the Bonds shall be two grams with a maximum limit of subscription of five hundred grams per person per fiscal year (April – March).

Issue Price - Price of the Bonds shall be fixed in Indian Rupees on the basis of the previous week's (Monday – Friday) simple average closing price for gold of 999 purity, published by the India Bullion and Jewellers Association Ltd. (IBJA).

Interest - The Bonds shall bear interest at the rate of 2.75 percent (fixed rate) per annum on the amount of initial investment. Interest shall be paid in half-yearly rests and the last interest shall be payable on maturity along with the principal.

Payment Options - Payment shall be accepted in Indian Rupees through cash up to a maximum of ₹20,000/- or demand drafts or cheque(drawn in favour of receiving office) or electronic banking. The investment in the Bonds shall be eligible for SLR.

Redemption - The Bonds shall be repayable on the expiration of eight years from February 8, 2016, the date of issue of Gold bonds. Pre-mature redemption of the Bond is permitted from fifth year of the date of issue on the interest payment dates. The redemption price shall be fixed in Indian Rupees on the basis of the previous week's (Monday – Friday) simple average closing price for gold of 999 purity, published by IBJA.

Repayment - The receiving office shall inform the investor of the date of maturity of the Bond one month before its maturity.

Loan against Bonds - The Bonds may be used as collateral for loans. The Loan to Value ratio will be as applicable to ordinary gold loan mandated by the Reserve Bank from time to time. The lien on the Bonds shall be marked in the depository by the authorised banks.

Tax Treatment - Interest on the Bonds shall be taxable as per the provisions of the Income-tax Act, 1961. Capital gains tax treatment will be the same as that for physical gold.

The terms and conditions also include details on application, nomination, transferability, tradability of bonds and commission for distribution. (https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10226&Mode=0)

Medium-Term Debt Management Strategy in Public Domain

The Reserve Bank, in consultation with the Government of India, placed Medium-Term Debt Management Strategy (MTDS) in public domain on December 31, 2015. The strategy has been articulated for a period of three years (2015-16 to 2017-18). The strategy document contains the objectives, risk analysis of Government borrowings and strategy to be followed. MTDS is in consonance with the Medium -Term Fiscal Policy Statement (MTFPS). MTDS has been prepared based on sound international practices and taking into account the domestic economic and financial conditions. MTDS would be updated on an annual basis to reflect the emergent conditions. (https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=35858)

Foreign Exchange Management

Comprehensive Master Directions on Forex

The Reserve Bank, on January 4, 2016 issued 17 Master Directions (see box on page 1) covering foreign exchange transactions. Master Directions on foreign exchange consolidate relevant A.P (DIR Series) Circulars issued so far within the ambit of the relevant regulations, amended up to date and cover different classes of transactions permitted under the rules and regulations framed under the Foreign Exchange Management Act, 1999 (FEMA). Master Directions on foreign exchange matters deal with the manner in which an authorised person should conduct cross border/forex transactions.(https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=35886)

- Master Direction-Money Changing Activities
- Master Direction – Opening and Maintenance of Rupee/Foreign Currency Vostro Accounts of Non-resident Exchange Houses
- Master Direction – External Commercial Borrowings, Trade Credit, Borrowing and Lending in Foreign Currency by Authorised Dealers and Persons other than Authorised Dealers
- Master Direction – Miscellaneous
- Master Direction – Reporting under Foreign Exchange Management Act, 1999
- Master Direction – Import of Goods and Services
- Master Direction – Export of Goods and Services
- Master Direction – Direct Investment by Residents in Joint Venture (JV) / Wholly Owned Subsidiary (WOS) Abroad
- Master Direction - Deposits and Accounts
- Master Direction - Remittance of Assets
- Master Direction – Acquisition and Transfer of Immovable Property under Foreign Exchange Management Act, 1999
- Master Direction – Establishment of Liaison/ Branch/ Project Offices in India by Foreign Entities
- Master Direction - Insurance
- Master Direction - Other Remittance facilities
- Master Direction - Liberalised Remittance Scheme (LRS)
- Master Direction – Borrowing and Lending transactions in Indian Rupee between Persons Resident in India and Non-Resident Indians/ Persons of Indian Origin
- Master Direction- Compounding of Contraventions under FEMA, 1999

Financial Inclusion and Development

Guidelines on FLCs of Banks revised

To adopt a tailored approach for different target groups and ensure adequate synchronisation at the ground level between the different stakeholders during the conduct of financial literacy camps, the Reserve Bank, on January 14, 2016, revised the guidelines for Financial Literacy Centres of Lead Banks. The Reserve Bank has also prepared the operational guidelines for the conduct of camps by FLCs and rural branches along with the reporting mechanism to be followed by State Level Bankers Committee (SLBC) Convener banks/lead banks. The Reserve Bank has further told the banks that the financial literacy camps would be assessed/evaluated on an ongoing basis by the Lead District Officers (LDOs) of the Reserve Bank. The salient features of the revised guidelines are:

I. Stronger FLC Architecture – Board Approved Policies

- The Financial Literacy Counsellor/Director heading the Financial Literacy Centre is the key stakeholder in driving the financial literacy initiatives at the ground level. Banks should immediately put in place board approved policies on the modalities for engagement/recruitment of Financial Literacy Counsellors in FLCs.
- Physical Infrastructure: The FLC being a part of the lead bank office or a rural branch should have a separate room/space with a seating capacity of minimum 10 members to address walk in customers.
- Basic amenities like computers/laptops and printers and furniture and fixtures should be provided.

- Vehicular support may be provided for FL counsellors.
- Each FLC should have a dedicated help line for addressing grievances of the public in the district and the helpline should be adequately publicised.
- Skill building of FL Counsellors: The Reserve Bank will organise a workshop/training programme in collaboration with College of Agricultural Banking (CAB), Pune to train the Financial Literacy Counsellors this year. Regional offices of the Reserve Bank will hold workshops at state level every year as part of the Financial Literacy Week in each state.
- Each SLBC Convenor bank should update the database on Financial Literacy Centres through their SLBC/UTLBC Website on a real time basis with inputs from the LDMs/Sponsor banks

II. Tailored Approach to Financial Literacy and Conduct of Camps

- FLCs and rural branches should identify different target groups at the ground level and conduct camps for a homogenous audience so that there could be more focus and in depth transmission of financial education.
- Going forward, the approach of FLCs and rural branches of banks on conduct of camps would include-(i) special camps for the newly included people in the financial system, including PMJDY account holders;(ii) target group specific camps for farmers, self help groups(SHGs), micro and small entrepreneurs, senior citizens, school children and others (may be identified by the FLCs)

III. Concerted Approach and Financial Support

FLCs should try to get on board as many stakeholders as possible at the district/panchayat/village level, viz., LDM, DDM of NABARD, LDO of the Reserve Bank, District and Local administration, Block level officials, NGOs, SHGs, BCs, Farmers' clubs, panchayats, PACS, village level functionaries etc. during the conduct of the camps. Adequate publicity should be given before the camps are conducted. Distribution of pamphlets, intimation through panchayat and local administration, media publicity should be considered to make the camps a success.

Currently, NABARD is in the process of preparing a comprehensive policy on funding for setting up of FLCs by all banks. With regard to detail on funding on financial literacy activities from the Financial Inclusion Fund, banks may follow guidelines issued by NABARD.

Reporting Mechanism - SLBC/UTLBCs will submit the enclosed excel sheet on a quarterly basis to the respective Regional offices of the Reserve Bank within 20 days from the end of the quarter. Apart from these, FLCs are free to undertake financial literacy activities as deemed necessary, as per local needs.(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10222&Mode=0)

Roadmap for opening Brick and Mortar Branches in Villages

For increasing banking penetration and financial inclusion, the Reserve Bank on December 31, 2015, advised SLBC Convenor banks to identify villages with population above 5000 without a bank branch of a scheduled commercial bank in their State. The identified villages may be allotted among scheduled commercial banks (including Regional Rural Banks) for opening of branches. The opening of bank branches under this Roadmap should be completed by March 31, 2017.

The finalised roadmap with details of allocated villages to various banks should be submitted to the respective Regional Office of the Reserve Bank as per the prescribed format latest by January 31, 2016. Quarterly monitoring and review mechanism should be instituted by DCCs and SLBCs to evaluate the progress under this roadmap. The SLBC Convenor banks should arrange to furnish quarterly statement of the district-wise, bank-wise progress in opening branches starting from quarter ended March 2016 by the 15th of the following month to the respective Regional Office of Financial Inclusion and Development Department, Reserve Bank and also publish it on the respective SLBC website (s) as per the prescribed format.

Case Writing Competition on MSME Lending

The Reserve Bank of India's College of Agricultural Banking (CAB), Pune, is conducting a Case Writing Competition for bankers. The topic of the competition is "Case Study: Lending to an MSME Borrower in an Innovative Way". The purpose of holding the competition is to encourage bankers to contribute case studies where finance was extended to a Micro, Small and Medium Enterprise (MSME) borrower in an innovative way - a way which has the potential to sensitise other bankers as well.

Staff members of scheduled commercial banks, including members of faculty from banks' training establishments, including Small Industries Development Bank of India (SIDBI), regional rural banks (RRBs), state cooperative banks and urban cooperative banks, including members of faculty from banks' training establishments and staff members of non-banking finance companies (NBFCs) can participate in the competition.

The participants may submit the case studies in English/Hindi in PDF format along with the duly filled-in Application-cum-Declaration Form by email. The last date for submission is January 31, 2016

The winners will be given a cash prize of ₹ 20,000 (first prize), ₹ 15,000 (second prize) and ₹ 10,000 (third prize) apart from certificates. Details of the competition are available on the website at http://cab.org.in

Interest Subvention Scheme for Women SHGs

The Reserve Bank, on January 21, 2016, circulated the revised guidelines on Interest Subvention Scheme on Credit to Women SHG during the year 2015-16 under National Rural Livelihoods Mission (NRLM) as received from the Ministry of Rural Development, Government of India, for implementation by public sector banks. The revised guidelines include details on the Interest subvention scheme on Credit to Women SHG during the year 2015-16 for all public sector banks, regional rural banks and rural co-operative banks in 150 districts and Interest subvention scheme for Category II Districts ,other than 150 districts.(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10236&Mode=0)

Payment and Settlement Systems

No P2F for Central Government Cheques under CTS

With a view to enhancing efficiency in cheque clearing, the Reserve Bank has introduced Cheque Truncation System (CTS) for clearance of cheques, facilitating the presentation and payment of cheques without their physical movement. Taking this initiative forward, the Reserve Bank, in consultation with the Office of the Controller General of Accounts (CGA), Ministry of Finance, Government of India, on December 31, 2015 decided to dispense with the current requirement of forwarding the paid Central Government cheques in physical form , commonly known as Paper to Follow(P2F) to the Government departments. Accordingly, the "Revised Memorandum of Instructions for reporting and accounting of transactions of Union Ministries Expenditure Accounts (UMEA) by the accredited public sector banks (effective from 1st May 1989)" has been revised. The revised guidelines would be effective in respect of cheques issued by the Central Government and Union Territories (UTs) from February 1, 2016.(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10188&Mode=0)

Co-operative Banking

Acceptance of Cheques bearing Date as per Saka Samvat

The Reserve Bank on January 21, 2016, advised all co-operative banks to accept cheques bearing a date as per National Calendar (Saka Samvat) for payment, if otherwise found in order and also ascertain the Gregorian calendar date corresponding to the National Saka calendar in order to avoid payment of stale cheques. The advice was issued after the Government of India accepted Saka Samvat as National Calendar with effect from March 22, 1957 and all Government statutory orders, notifications, Acts of Parliament, etc. bear both the dates, i.e., Saka Samvat as well as Gregorian Calendar. Therefore, a cheque written in Hindi and bearing a date in Hindi is a valid instrument. (https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10237&Mode=0)

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