



Monetary and Credit Information Review

MCIR

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Monetary Policy

Third Bi-monthly Monetary Policy Statement, 2017-18

Resolution of the Monetary Policy Committee

On the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC), at its meeting held on August 2, 2017, decided to reduce the policy repo rate under the liquidity adjustment facility (LAF) by 25 basis points from 6.25 per cent to 6.0 per cent with immediate effect.

Consequently, the reverse repo rate under the LAF stands adjusted to 5.75 per cent, and the marginal standing facility (MSF) rate and the Bank Rate to 6.25 per cent.

The decision of the MPC is consistent with a neutral stance of monetary policy in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth. (https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=41256)

Statement on Developmental and Regulatory Policies

Measures to Improve Monetary Policy Transmission

- An internal study group, constituted by the Reserve Bank of India (RBI) to study various aspects of the Marginal Cost of Funds Based Lending Rate (MCLR) system from the perspective of improving the monetary transmission and exploring linking of the bank lending rates directly to market determined benchmarks, to submit the report by September 24, 2017.

Amendment to LCR Guidelines

- Reserves held by banks incorporated in India with a foreign central bank, in excess of the reserve requirement in the host country, to be treated as High Quality Liquid Asset (HQLA), subject to certain conditions.

High Level Task Force on Public Credit Registry for India

- To constitute a High-level Task Force comprising experts as well as major stake-holders to (i) review the current availability of information on credit in India; (ii) assess the gaps that could be filled by a comprehensive Public Credit Registry (PCR); (iii) study international practices; and, (iv) suggest a roadmap, including the priority areas, for developing a transparent, comprehensive and near-real-time PCR for India.

Issue of Comprehensive CIRs by CICs

- The Reserve Bank to direct Credit Information Companies (CICs) to incorporate all the credit information available in the CIC database in the Credit Information Reports (CIRs) furnished to Credit Institutions (CIs).

RBI's Surveys of Households

- The Reserve Bank to expand the coverage of Inflation Expectation

Survey of Households (IESH) to rural and semi-urban areas; and increase the coverage from 6 cities to 13 cities, in case of the Consumer Confidence Survey (CCS).

Tri-party Repo

- The Reserve Bank to introduce tri-party repos, that will likely contribute to better liquidity in the corporate bond repo market, thereby providing markets an alternate repo instrument to Government securities repo.

Simplified Hedging Facility

- The circular to operationalise the scheme of simplified hedging facility that aims to simplify the process for hedging exchange rate risk by reducing documentation requirements and avoiding prescriptive stipulations regarding products, purpose and hedging flexibility, has been finalised.

Separate Limit of IRFs for FPIs

- To facilitate further market development and to ensure Foreign Portfolio Investors (FPIs)'s access to futures remain uninterrupted during the phase when FPI limits on Government securities are under auction, it is proposed to allocate FPIs a separate limit of ₹5,000 crore for long position in Interest Rate Futures (IRFs). The limits prescribed for investment by FPIs in Government securities will then be exclusively available for acquiring such securities. FPI's access to interest rate futures for hedging purposes will continue as before. (https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=41257)

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Financial Market Regulation

Tri-Party Repo (Reserve Bank) Directions, 2017

To promote the development of the financial system of the country, the Reserve Bank, on August 10, 2017, issued the Tri-Party Repo (Reserve Bank) Directions, 2017. Tri-party repo is a type of repo contract where a third entity (apart from the borrower and lender), called a Tri-Party Agent, acts as an intermediary between the two parties to the repo to facilitate services like collateral selection, payment and settlement, custody and management during the life of the transaction. The draft tri-party directions were released for public comments on April 11, 2017. Based on the feedback, the Tri-Party Repo (Reserve Bank) Directions, 2017 have been finalised.

Salient Features

Eligible collateral for tri-party repo shall be securities as specified in Repo Directions and eligible participants will be as specified in Repo Directions.

Trading Process: Tri-party repo may be traded using any trading process authorised under these directions by the Reserve Bank, including bilateral/multilateral, anonymous or otherwise, quote driven or order driven.

Trading Venue: Tri-party repo may be traded over-the-counter (OTC) including on electronic platforms, or, on stock exchanges.

Reporting of Trades: All tri-party repos shall be reported within 15 minutes of the trade for public dissemination to Clearing Corporation of India Ltd (CCIL) or to exchanges or any other reporting platform authorised for the purpose by the Reserve Bank.

Settlement: All settlements will be on Delivery vs Payment (DvP) basis, with or without netting of securities and/or cash. Settlement can also be guaranteed or non-guaranteed bilateral/multilateral, through clearing houses of exchanges or any other clearing arrangement approved under the Payment and Settlement Systems Act, 2007.

Tri-Party Agents:

- All tri-party agents need prior authorisation from the Reserve Bank to act in that capacity.
- Scheduled commercial banks, recognised stock exchanges and clearing corporations of stock exchanges or clearing corporations authorised under PSS Act., are eligible to be tri-party agents.
- Other entities regulated by the Reserve Bank or Securities and Exchange Board of India (SEBI) are eligible, subject to meeting certain criteria.

Roles and Obligations:

- The agent shall provide equitable access for trading to all its members/market participants.
- The trading process should be transparently specified.
- All trades may be reported as indicated.
- In case the agent undertakes settlement of trades itself, it would seek approval under the PSS Act 2007. Agents not settling trades themselves will be responsible for routing the trades for settlement.
- The agent shall be responsible for revaluation of the collateral, margining, income payments on the collateral, as well as substitution of any collateral as per terms and conditions prescribed in the member agreement.

- The agent shall be required to put in place transparent and reliable collateral valuation norms.
- The agent shall be required to maintain records of trades in easily retrievable media for at least 8 years.
- The agent shall ensure adherence to the Reserve Bank's repo directions.
- The agent shall submit to the Reserve Bank such returns, documents and other information as may be required by the Reserve Bank from time to time.

Application Procedure for Authorisation of Tri-Party Agent:

- Entities meeting the eligibility criteria may apply to the Chief General Manager, Financial Markets Regulation Department, Reserve Bank of India, 1st Floor, Main Building, Shaheed Bhagat Singh Marg, Mumbai – 400001.
- The decision to authorise entities to act as Tri-Party Agent in repo market will be taken by the Reserve Bank based on its assessment of market needs, suitability of the applicant and the likely value addition to the repo market.
- Any significant change(s) in processes, risk management framework, settlement arrangement, or in any other conditions specified at the time of approval, shall require prior approval by the Reserve Bank.

Exit Procedure

If an authorised Tri-Party agent intends to terminate operations, it should abide by the timing and date of termination of Tri-Party operations, and any other condition stipulated by the Reserve Bank. (<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11088&Mode=0>)

Reserve Bank Commercial Paper Directions, 2017

To promote the development of the credit and financial system of the country to its advantage and in public interest, the Reserve Bank on August 10, 2017, issued the Reserve Bank Commercial Paper Directions, 2017 after taking into account the public comments on the draft guidelines on Commercial Paper issued on February 2, 2017.

Form

- A Commercial Paper (CP) shall be issued in the form of a promissory note and held in a dematerialised form through any of the depositories approved by and registered with SEBI.
- A CP shall be issued in minimum denomination of ₹ 5 lakh and multiples thereof.
- A CP shall be issued at a discount to face value.
- No issuer shall have the issue of a CP underwritten or co-accepted.
- Options (call/put) are not permitted on a CP.

Rating Requirement

Eligible issuers, shall obtain credit rating for issuance of CPs from at least two credit rating agencies (CRAs) registered with SEBI and should adopt the lower of the two ratings. Where both ratings are the same, the issuance shall be for the lower of the two amounts for which ratings are obtained. The minimum credit rating for a CP shall be 'A3' as per rating symbol and definition prescribed by SEBI.

Documentation Procedures

Issuers, investors and Issuing and Paying Agents (IPAs) shall follow the standard procedures and documentation prescribed by Fixed Income Money Market and Derivatives Association of India (FIMMDA) as 'Operational Guidelines on CPs'.

Secondary Market Trading and Settlement of CP

- All over-the-counter (OTC) trades in CP shall be reported within 15 minutes of the trade to the Financial Market Trade Reporting and Confirmation Platform ("F-TRAC") of Clearcorp Dealing System (India) Ltd.
- The settlement cycle for OTC trades in CP shall be T+0 or T+1.
- OTC trades in a CP shall be settled through the clearing corporation of any recognised stock exchange or any other mechanism approved by Reserve Bank.

Buyback of CP

- The buyback of a CP, in full or part, shall be at the prevailing market price.
- The buyback offer should be extended to all investors in the CP issue. The terms of the buyback should be identical for all investors in the issue.
- The buyback offer may not be made before 30 days from the date of issue.
- CPs bought back shall stand extinguished.

Duties and Obligations

The Directions also list out the duties and obligations of the Issuer, Issuing and Paying Agent (IPA) and Credit Rating Agency(CRA).(<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11089&Mode=0>)

Banking Regulation**Issue of Comprehensive Credit Information Reports**

The Reserve Bank on August 2, 2017, directed all credit information companies to ensure that the credit information report (CIR) in respect of a borrower, furnished to the credit institutions (CIs), incorporates all the credit information available in all modules, for example, consumer, commercial and micro finance institutions (MFIs), etc., in respect of the borrower.(<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11077&Mode=0>)

Basel III Framework on Liquidity Standards

The Reserve Bank on August 2, 2017, amended certain provisions of Basel III Framework on Liquidity Standards – Liquidity Coverage Ratio (LCR), Liquidity Risk Monitoring Tools and LCR Disclosure Standards guidelines.

Level 1 assets of banks would now comprise of the following and these assets can be included in the stock of liquid assets without any limit as also without applying any haircut:

- Cash including cash reserves in excess of required CRR.
- Government securities in excess of the minimum SLR requirement.
- Within the mandatory SLR requirement, Government securities to the extent allowed by the Reserve Bank, under Marginal Standing Facility (MSF).
- Marketable securities issued or guaranteed by foreign sovereigns satisfying select conditions.(<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11078&Mode=0>)

Foreign Exchange Management**Risk Management and Interbank Dealings**

The Reserve Bank on August 10, 2017, advised the Head/Principal Office of AD category-I banks to submit the statement in form BAL giving details of their holdings of all foreign currencies

on fortnightly basis through Online Returns Filing System (ORFS) within seven calendar days from the close of the reporting period to which it relates through the web portal at <https://bop.rbi.org.in>, with effect from August 16, 2017 (i.e. for the statement of first fortnight of August 2017). Head/Principal Office of AD Cat-I banks are also advised not to submit the monthly statement of Nostro/Vostro account balances, as done earlier.(<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11087&Mode=0>)

Financial Inclusion and Development**Natural Calamities Portal – Monthly Reporting System**

The Reserve Bank on August 3, 2017, directed all commercial banks to upload the actual data on relief measures extended during April - June 2017 immediately and thereafter from July 2017 onwards every month by the 10th of the following month, on the dedicated portal, developed for collection and compilation of data on natural calamities on a real time basis through a centralised system.

The State Level Bankers' Committee (SLBC) convener banks are also requested to upload the notifications issued by state/district authorities for declaration of natural calamities for which relief measures were implemented by SLBC/banks from April 2017 onwards. The subsequent notifications are to be uploaded as soon as the notifications are issued.(<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11080&Mode=0>)

Interest Subvention Scheme for Short Term Crop Loans

The Reserve Bank on August 16, 2017 conveyed to the commercial banks that the Government of India has approved the implementation of the Interest Subvention Scheme for the year 2017-18 for short term crop loans up to ₹ 3.00 lakhs with certain stipulations. All lending banks are, therefore, advised to send the eligible pending audited claims of 2015-16 latest by August 31, 2017 and give adequate publicity to the 'Interest Subvention Scheme for Short Term Crop Loans' so that the farmers can avail the benefits.(<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11098&Mode=0>)

Government and Bank Accounts**Issue of Letters of Credit and Bank Guarantee**

After a review, it has been decided that the Reserve Bank will continue not to issue LCs on behalf of the government and will not act as an issuing or advising bank for government as far as transactions related to BGs are concerned. The government department concerned would be directly taking up the matter with any commercial bank identified by them and all matters concerned with the issuances of LC should be dealt with by the government and the commercial banks, without involving the Reserve Bank. The role of the Reserve Bank is strictly limited to reimbursement of payments made by the banks for such LCs/BGs on behalf of the government, after satisfying itself with the debit mandate given by the government. Further, the Reserve Bank may not issue any letter advising/recommending opening of LC/BG to the commercial banks on behalf of government department.

(<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11081&Mode=0>)

Currency Management

RBI introduces ₹200 and ₹50 Denomination Banknotes in Mahatma Gandhi (New) Series

The Reserve Bank of India introduced ₹200 and ₹50 denomination bank notes in the Mahatma Gandhi (New) Series, on August 25, 2017 and August 18, 2017, respectively. Banknotes of both the denominations have the signature of Dr. Urjit R. Patel, Governor, Reserve Bank of India.

The introduction of ₹200 denomination banknote is expected to facilitate exchange transactions for the common man. These notes are currently available only through select RBI offices and banks. The production of these notes is being ramped up by the currency printing presses. Over time as more notes are printed, the same will be distributed across the country through banking channels and made available for public in adequate quantity.



₹200

- **Size:** 66 mm × 146 mm
- **Theme:** Motif of Sanchi Stupa on the reverse, depicting the country's cultural heritage
- **Colour:** Bright Yellow
- **For visually impaired:** Intaglio or raised printing of Mahatma Gandhi portrait, Ashoka Pillar emblem, raised Identification mark H with micro-text ₹200, four angular bleed lines with two circles in between the lines both on the right and left sides
- Latent image with denominational numeral 200
- Windowed security thread with inscriptions 'भारत' and RBI with colour shift.
- Colour of the thread changes from green to blue when the note is tilted
- Denominational numeral with Rupee symbol, ₹200 in colour changing ink (green to blue) on bottom right



₹50

- **Size:** 66 mm x 135 mm.
- **Theme:** Motif of Hampi with Chariot on the reverse, depicting the country's cultural heritage.
- **Colour:** Fluorescent Blue
- Windowed demetalised security thread with inscriptions 'भारत' and RBI

Common Features of the new ₹50 and ₹200 notes:

Obverse (Front)

1. See through register with denominational numeral
2. Denominational numeral in Devanagari
3. Portrait of Mahatma Gandhi at the centre
4. Micro letters 'RBI', 'भारत', 'INDIA' and numeral
5. Guarantee Clause, Governor's signature with Promise Clause and RBI emblem towards right of Mahatma Gandhi portrait
6. Ashoka Pillar emblem on the right
7. Mahatma Gandhi portrait and electrotype (numeral) watermarks,
8. Number panel with numerals growing from small to big on the top left side and bottom right side

Reverse (Back)

9. Year of printing of the note on the left
10. Swachh Bharat logo with slogan
11. Language panel,
12. Denominational numeral in Devanagari