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MONETARY AND CREDIT INFORMATION REVIEW

Banking Regulation

RBI amends Basel III Capital Regulations

On a review of the existing capital adequacy guidelines, the Reserve Bank on March 1, 2016 made some amendments to the treatment of certain balance sheet items for the purposes of determining banks' regulatory capital. The review was carried out with a view to further aligning the definition of regulatory capital with the internationally adopted Basel III capital standards, issued by the Basel Committee on Banking Supervision (BCBS). The salient features of the amendments were:

Treatment of Revaluation Reserves

Revaluation reserves arising from change in the carrying amount of a bank's property consequent upon its revaluation would be considered as common equity tier 1 capital (CET1) at a discount of 55 per cent instead of Tier 2 capital as earlier, subject to following conditions:

- Bank is able to sell the property readily at its own will and there is no legal impediment in selling the property;
- The revaluation reserves are shown under Schedule 2: Reserves & Surplus in the Balance Sheet of the bank;
- Revaluations are realistic and in accordance with Indian Accounting Standards;
- Valuations are obtained, from two independent valuers, at least once in every three years; where the value of the property has been substantially impaired by any event, these are to be immediately revalued and appropriately factored into capital adequacy computations;
- The external auditors of the bank have not expressed a qualified opinion on the revaluation of the property.

Treatment of Foreign Currency Translation Reserves

Foreign Currency Translation Reserves (FCTR) arising due to translation of financial statements of a bank's foreign operations to the reporting currency may be considered as CET1 capital at a discount of 25 per cent subject to meeting the following conditions:

- The FCTR are shown under Schedule 2: Reserves & Surplus in the Balance Sheet of the bank;
- The external auditors of the bank have not expressed a qualified opinion on the FCTR.

Treatment of Deferred Tax Assets

(i) Deferred Tax Assets (DTAs) associated with accumulated losses and other such assets should be deducted in full from CET1 capital.

(ii) DTAs arising due to timing differences (other than those related to accumulated losses) may be recognised as CET1 capital up to 10 per cent of a bank's CET1 capital at the discretion of banks.

These amendments are applicable with immediate effect. (https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10294&Mode=0)

Interest Rates on Deposits and Advances

The Reserve Bank on March 3, 2016 issued the Master Directions (MD) on Interest Rates on Deposits and Advances. While the Master Directions on Interest Rates on Deposits is applicable to all scheduled commercial banks (including RRBs) accepting deposits in rupee and foreign currency, the Master Directions on Interest Rates on Advances are applicable to all scheduled commercial banks (excluding RRBs), granting rupee and foreign currency advances to their customers.

(i) Master Direction on Interest Rates on Advances

https://www.rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=10295

(ii) Master Direction on Interest Rate on Deposits

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10296&Mode=0)

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Background

The Reserve Bank has started issuing Master Directions on all regulatory matters beginning January 2016 to streamline compliance in pursuance of the decision announced in the Fourth Bi-monthly Monetary Policy Statement, 2015-16 on September 29, 2015. The Master Directions consolidate instructions on rules and regulations framed by the Reserve Bank under various Acts including banking issues and foreign exchange transactions. 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 is communicated during the year by way of circulars/press releases. 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. 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. With the issue of this Master Direction, the instructions/guidelines contained in the circulars listed therein stand repealed.

Instructions on Liquidity Risk Management revised

The Reserve Bank on March 23, 2016 revised certain instructions on measuring Liquidity Risk Management for Basel III norms, in view of recent developments, feedback received from the stakeholders and experience gained. Some of the revised norms included:

- The time buckets in Statements of Structural Liquidity (SLS) statement with Liquidity Coverage Ratio (LCR) monitoring requirement have been amended;
- The time buckets in Dynamic Liquidity statement with LCR monitoring requirement have been amended;
- In addition to the assets prescribed under Level 2B, with effect from February 1, 2016, Corporate debt securities (including commercial paper) can also be reckoned as Level 2B high-quality liquid asset (HQLAs) subject to a 50 per cent haircut and the securities having usual fundamental and market related characteristics for HQLAs and meeting certain conditions;
- Banks generally allow loans against deposits of customers. If a deposit is contractually pledged to a bank as collateral to secure a credit facility or loan granted by the bank that will not mature or be settled in the next 30 days, then banks may exclude such pledged deposit from the LCR calculation, i.e. outflows, subject to select conditions;
- Branches of foreign banks are exempted from submitting the statement relating to LCR by Significant Currency, as they do not hold any foreign currency HQLAs.(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10309&Mode=0)

Foreign Exchange Management

Grant of EDF Waiver for Export of Goods Free of Cost

The Reserve Bank on March 3, 2016 advised Authorised Dealer (AD) Category – I banks to consider requests from status holder exporters for grant of Export Declaration Form (EDF) waiver, for export of goods free of cost based on the revised norm. Government of India, had earlier revised the norm and notified that the status holders would be entitled to freely export exportable items on free of cost basis for export promotion subject to an annual limit of ₹10 lakh or 2 per cent of average annual export realisation during preceding three licensing years whichever is lower. (https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10297&Mode=0)

Payment and Settlement Systems

Data on NEFT Transactions of Walk-in Customers

From the quarter ending March 31, 2016, members banks do not need to submit data pertaining to National Electronic Funds Transfer (NEFT) transactions by walk-in customers (those not having an account with the bank). The Reserve Bank may, however, call for adhoc reports regarding the data for NEFT transactions by walk-in customers as and when required. Hence, banks may continue to maintain such data at their end. (https://rbi.org.in/Scripts/NotificationUser.aspx?Id=10302&Mode=0)

Concept Paper on Card Acceptance Infrastructure

The Reserve Bank on March 8, 2016 placed on its website the Concept Paper on Card Acceptance Infrastructure. Comments may be emailed to cardspaper@rbi.org.in or sent by post to the Chief General Manager, Department of Payment and Settlement Systems, Reserve Bank of India, Central Office, 14th Floor, Shahid Bhagat Singh Marg, Mumbai - 400001 on or before April 15, 2016. This concept paper has been prepared taking into account the inputs gathered during various interactions with the stakeholders. The paper outlines strategic options for addressing the issue of both expansion of card acceptance infrastructure as well as rationalisation of merchant discount rate (MDR). The objective is to examine holistically the relevant issues that come in the way of acceptance of card payments and deployment of infrastructure for the same so as to ensure continued and accelerated growth in card acceptance. (https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=36427)

Designated Trade Repository under the PSS Act, 2007

The amendments to the Payment and Settlement Systems Act, 2007 (PSS Act) notified in May 2015 have brought the Trade Repository under the ambit of this Act. Accordingly, the Clearing Corporation of India Limited (CCIL) shall be the designated trade repository under Section 34 (2) of the PSS Act for the Over-the-Counter (OTC) interest rate and foreign exchange contracts as mandated by the Reserve Bank from time to time. The provisions of the PSS Act shall apply to the designated trade repository as they apply to, or in relation to, payment systems to the extent applicable.

The trade repository being a Financial Market Infrastructure (FMI) shall be regulated and supervised as per the policy framework for "Regulation and Supervision of Financial Market Infrastructures regulated by RBI".

Background

The G-20 Declaration of the Pittsburgh Summit of September 24-25, 2009 has outlined several reform measures for improving the Over-the-counter (OTC) Derivative markets including reporting of OTC Derivative contracts to Trade Repository. The Reserve Bank, being the regulator of OTC interest rate and foreign exchange derivatives in India, is committed to take appropriate steps to ensure compliance with the G-20 commitments. The Reserve Bank had issued a Press Release dated 15th January 2014 on "The Reserve Bank Compliance with the G-20 Commitment on Reporting of OTC Derivative Trades to Trade Repository". (https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=36567)

Financial Inclusion and Development

Framework for Revival and Rehabilitation of MSMEs

The Reserve Bank in consultation with the Ministry of Micro, Small and Medium Enterprises, Government of India, on March 17, 2016 has formulated a "Revised Framework for Revival and Rehabilitation of Micro, Small and Medium Enterprises (MSMEs)" along with operating instructions. The objective is to make the Framework and the operating instructions, compatible with the existing regulatory guidelines on 'Income Recognition, Asset Classification and provisioning pertaining to Advances' issued by the Reserve Bank. The Reserve Bank further advised banks to put in place the Board approved policy to operationalise the Framework not later than June 30, 2016.

While the prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances will continue to be as per the instructions consolidated in the Master Circular on IRAC Norms dated July 1, 2015 and as updated from time to time, the revival and rehabilitation of MSMEs having loan limits up to ₹ 25 crore will be in terms of these operating instructions. Restructuring of loan accounts with exposure of above ₹ 25 crore will continue to be governed by the extant guidelines on Corporate Debt Restructuring (CDR) / Joint Lenders' Forum (JLF) mechanism. (https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10304&Mode=0)

Pradhan Mantri Fasal Bima Yojana

The Reserve Bank has conveyed the Pradhan Mantri Fasal Bima Yojana to the commercial banks on March 17, 2016. The scheme aims at providing insurance cover to farmers. (https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10305&Mode=0)

Non-Banking Regulation

Risk Weights assigned to Sovereign Debt revised

The Reserve Bank on March 10, 2016, advised all deposit accepting NBFCs, systemically important non-deposit taking NBFCs, all NBFC-MFIs and all NBFC-IFCs regarding the revised risk weights assigned to exposures to domestic sovereigns, as under:

a) *Exposures to Central Government*

i. Fund-based and non-fund based claims on the Central Government will attract a zero risk weight.

ii. Central Government guaranteed claims will attract a zero risk weight.

b) *Exposures to State Government*

i. Direct loan/ credit/ overdraft exposure and investment in State Government securities will attract zero risk weight.

ii. State Government guaranteed claims, which have not remained in default, will attract 20 per cent risk weight. However, if the loans guaranteed by the State Government have remained in default for a period of more than 90 days, a risk weight of 100 per cent should be assigned.

Earlier, all deposit accepting NBFCs, systemically important non-deposit taking NBFCs, all NBFC-MFIs and all NBFC-IFCs had to maintain a minimum capital ratio consisting of Tier I and Tier II capital which shall not be less than 15 per cent of its aggregate risk weighted assets on-balance sheet and of risk adjusted value of off-balance sheet items. (https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10301&Mode=0)

Co-operative Banking

Minimum Capital Adequacy Norms for StCBs/DCCBs

The Reserve Bank on March 10, 2016 permitted State and Central Cooperative Banks (StCBs/DCCBs) to include the following items under Tier I capital:

i. Contributions received from associate / nominal members where the bye-laws permit allotment of shares to such members and provided there are restrictions on withdrawal of such shares as applicable to regular members.

ii. Contribution / non-refundable admission fees collected from the nominal and associate members which are held separately as 'Reserves' under appropriate head since these are not refundable.

iii. Outstanding amount in Special Reserve created under Section 36(1) (viii) of the Income Tax Act, 1961 if the bank has created Deferred Tax Liability (DTL) on this Reserve. (https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10300&Mode=0)

Financial Market Regulation

Participation of Standalone PDs in Currency Futures Market

The Reserve Bank on March 17, 2016 permitted stand-alone Primary Dealers (PDs) to deal in currency futures contracts traded on recognised exchanges subject to the following conditions:

Eligibility:

- Exposure to currency futures will be treated as a non- core activity for PDs and only PDs having a minimum Net Owned Fund (NOF) of ₹ 250 crore or any amount as prescribed for undertaking diversified activity will be allowed to participate in currency futures.
- As prescribed in the existing guidelines on capital adequacy standards, the capital charge for market risk for the non-core activities (including currency futures) which are expected to consume capital should not be more than 20 per cent of the NOF as per last audited balance sheet.

Membership:

- PDs are permitted to participate in the currency futures market either as clients or direct trading / clearing members of the currency derivatives segment of the Stock Exchanges recognised by SEBI.
- PDs can trade only on their own account and they are not permitted to take positions on behalf of clients.

Position Limits:

- PDs are permitted to take long and short positions in the currency futures market with or without having an underlying exposure subject to the position limits specified by the exchanges. However, the aggregate gross open positions across all contracts in all the stock exchanges in the respective currency pairs shall not exceed the limits as mentioned below:

Currency Pairs	Position Limits
USD-INR	Gross open position across all contracts shall not exceed 15% of the total open interest or USD 50 million, whichever is higher.
EUR-INR	Gross open position across all contracts shall not exceed 15% of the total open interest or EUR 25 million, whichever is higher.
GBP-INR	Gross open position across all contracts shall not exceed 15% of the total open interest or GBP 25 million, whichever is higher.
JPY-INR	Gross open position across all contracts shall not exceed 15% of the total open interest or JPY 1000 million, whichever is higher.

Risk Management:

- PDs should lay down detailed guidelines on risk management including exposure, risk limits and reporting requirements with Board's approval for conduct of this activity and management of risks.
- PDs should put in place appropriate system to ensure strict adherence to the above prescribed position limits.
- PDs should maintain adequate infrastructure in terms of systems and manpower for participation in currency futures.

In case of failure to meet the obligations of Primary Dealership business in the Government securities market or any other violations leading to supervisory concern, the Reserve Bank reserves the right to impose restrictions or withdraw permission to deal in currency futures contracts. (https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10306&Mode=0)

Government Banking

Recovery of Excess Pension Payments

The Reserve Bank, on March 17, 2016 in consultation with the Controller General of Accounts and various non-civil Ministries for recovery, reiterated the uniform procedure for recovery of excess/wrong pension payments, as under:

- As soon as the excess/wrong payment made to a pensioner comes to the notice of the paying branch, the branch should adjust the same against the amount standing to the credit of the pensioner's account to the extent possible including lumpsum arrears payment.
- If the entire amount of over payment cannot be adjusted from the account, the pensioner may be asked to pay forthwith the balance amount of over payment.
- In case the pensioner expresses his inability to pay the amount, the same may be adjusted from the future pension payments to be made to the pensioners. For recovering the over-payment made to pensioner from his future pension payment in instalments 1/3rd of net (pension + relief) payable each month may be recovered unless the pensioner concerned gives consent in writing to pay a higher instalment amount.
- If the over payment cannot be recovered from the pensioner due to his death or discontinuance of pension then action has to be taken as per the letter of undertaking given by the pensioner under the scheme.
- The pensioner may also be advised about the details of overpayment/wrong payment and mode of its recovery.(https://rbi.org.in/Scripts/NotificationUser.aspx?Id=10303&Mode=0)

Reports

Recommendations on Incentives in Distribution of FPs

The Reserve Bank on March 4, 2016, placed the recommendations of the Committee to Recommend Measures for Curbing Mis-selling and Rationalising Distribution Incentives in Financial Products(FPs) on the RBI website. The Committee set up under the Chairmanship of Shri Sumit Bose, Former Union Finance Secretary, submitted its report on August 10, 2015 and had made a number of recommendations on the incentive structure in distribution of financial products. The report is available on the website of the Ministry of Finance (http://finmin.nic.in/suggestion_comments/Inviting_Comments_Committee_Incentive_Structure.asp)

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