MONETARY & CREDIT INFORMATION REVIEW

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MCIR

Contents

Note from the Editor

Welcome to yet another edition of the Monetary and Credit Information Review (MCIR). This monthly periodical of the RBI helps keep abreast with new developments and important policy initiatives taken by the RBI during the month of February in the world of money and credit. MCIR can be accessed at https://mcir.rbi.org.in as well as by scanning the QR code.

Through this communication tool, we aim to share information, educate, and stay in touch while ensuring factual accuracy and consistency in disseminating the information.

We welcome your feedback at mcir@rbi.org.in

Yogesh Dayal
Editor

I. Monetary Policy

Resolution of the MPC

On the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) at its meeting held on February 5, 2021 decided to keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 4.0 per cent. Accordingly, marginal standing facility (MSF) rate and the Bank Rate remains unchanged at 4.25 per cent.

The MPC also decided to continue with the accommodative stance as long as necessary – at least during the current financial year and into the next financial year – to revive growth on a durable basis and mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward. These decisions are 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. To read more, please click here.

Statement on Developmental and Regulatory Policies

Liquidity Measures

- *TLTRO on tap Scheme – Inclusion of NBFCs* : It is proposed to provide funds from banks under the on tap targeted long-term repo operations (TLTRO) to non-banking financial companies (NBFCs) for incremental lending to the sectors as indicated in the Reserve Bank press release 2020-2021/763 dated December 11, 2020. In view of the important role played by NBFCs as well recognised conduits for reaching credit out to the last mile and acting as a force multiplier in expanding credit to various sectors, the Reserve Bank issued a notification on February 05, 2021 in this regard. To read more, please click here.
- *Restoration of CRR* : The Reserve Bank decided to gradually restore the cash reserve ratio (CRR) in two phases in a non-disruptive manner. Banks would now be required to maintain the CRR at 3.5 per cent of net demand and time liabilities (NDTL) effective from the reporting fortnight beginning March 27, 2021 and 4.0 per cent of NDTL effective from fortnight beginning May 22, 2021. The Reserve Bank on February 05, 2021 issued the notification in this regard. To read more, please click here.
- *MSF - Extension of Relaxation* : The Reserve Bank decided to continue with the MSF relaxation for a further period of six months, that is, up to September 30, 2021. The Reserve Bank on February 05, 2021 issued the notification in this regard. To read more, please click here.

Regulation and Supervision

- *SLR Holdings in HTM category* : The Reserve Bank decided to extend the dispensation of enhanced held-to-maturity (HTM) of 22 per cent up to March 31, 2023 to include securities acquired between April 1, 2021 and March 31, 2022.
- *Credit to MSME entrepreneurs* : Scheduled commercial banks (SCBs) will be allowed to deduct credit disbursed to 'New MSME borrowers' from their NDTL for calculation of the CRR. Accordingly, the Reserve Bank on February 05, 2021 advised all SCBs to report the exemption availed at the end of a fortnight, in prescribed format as per Master Circular on Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) dated July 1, 2015.To read more, please click here.
- *Basel III Capital Regulations* : The Reserve Bank decided to defer the implementation of the last tranche of the Capital Conservation Buffer (CCB) of 0.625 per cent from April 1, 2021 to October 1, 2021. To read more, please click here.
- *Deferment of the implementation of NSFR* : The Reserve Bank decided to defer the implementation of Net Stable Funding Ratio (NSFR) to October 1, 2021 in view of the ongoing stress on account of COVID-19. Accordingly, the NSFR guidelines shall come into effect from October 1, 2021. To read more, please click here.
- *Review of the Regulatory Framework for Microfinance* : The Reserve Bank proposed to

review the regulatory framework for non-banking financial company-micro finance institutions (NBFC-MFIs).

❑ *Constitution of an Expert Committee* : The Reserve Bank decided to set up an Expert Committee on primary urban co-operative banks (UCBs) involving all stakeholders in order to provide a medium-term road map to strengthen the sector, enable faster rehabilitation/resolution of UCBs, as well as to examine other critical aspects relating to these entities.

❑ *Remittances to IFSCs under the LRS* : The Reserve Bank decided to permit resident individuals to make remittances to International Financial Services Centres (IFSCs) established in India under the Liberalised Remittance Scheme (LRS).

Deepening Financial Markets

❑ *Allowing Retail Investors to Open Gilt Accounts* : The Reserve Bank decided to move beyond aggregator model and provide retail investors online access to the government securities market – both primary and secondary - along with the facility to open their gilt securities account ('Retail Direct') with the Reserve Bank.

❑ *FPIs Investment in Defaulted Bonds* : Foreign portfolio investors (FPI) can invest in security receipts and debt FPI investment in defaulted corporate bonds will be exempted from the short-term limit and the minimum residual maturity requirement under the medium term framework.

Payment and Settlement Systems

❑ *Setting up of a 24x7 Helpline* : The major payment system operators would be required to facilitate setting-up of a centralised industry-wide 24x7 helpline for addressing customer queries in respect of various digital payment products and give information on available grievance redress mechanisms by September 2021.

❑ *Guidelines on Outsourcing for Operators and Participants of Authorised Payment Systems* : To manage the attendant risks in outsourcing and ensure that a code of conduct is adhered to while outsourcing payment and settlement related services, the Reserve Bank shall issue guidelines to operators and participants of authorised payment systems.

❑ *Enabling participation in CTS Clearing* : It is observed that about 18,000 bank branches are still outside any formal clearing arrangement. In order to bring operational efficiency in paper-based clearing and make the process of collection and settlement of cheques faster resulting in better customer service, it is proposed to bring all such branches under the Cheque Truncation System (CTS) clearing mechanism by September 2021.

Consumer Protection

❑ *Integrated Ombudsman Scheme* : The Reserve Bank decided to implement, inter alia, integration of the three Ombudsman schemes and adoption of the 'One Nation One Ombudsman' approach for grievance redressal.

To read the full statement, please click here.

II. Regulation

Exposures to Entities with UFCE

The Reserve Bank has received representation from banks expressing their inability in obtaining Unhedged Foreign Currency Exposure (UFCE) certificates from listed entities for the latest quarter due to restrictions on the disclosure of such information prior to finalisation of accounts. Keeping this in view, the Reserve Bank on February 17, 2021 decided that banks may use data pertaining to the immediate preceding quarter for computing capital and provisioning requirements in case of UCFE. To read more, please click here.

Expert Committee on UCBs

The Reserve Bank on February 15, 2021 announced setting up of an Expert Committee on UCBs to examine the issues and to provide a road map for strengthening the sector, leveraging on the recent amendments to Banking Regulation Act, 1949 (As Applicable to Cooperative Societies). The expert committee would be chaired by Shri N.S. Vishwanathan, former Deputy Governor of the Reserve Bank. The terms of reference of the committee will be as under:

❑ Take stock of the regulatory measures taken by the Reserve Bank and other authorities in respect of UCBs.

❑ Review the current regulatory/supervisory approach and recommend suitable measures/changes to strengthen the sector.

❑ Suggest effective measures for faster rehabilitation/ resolution of UCBs and assess potential for consolidation in the sector.

❑ Consider the need for differential regulations and examine prospects to allow more leeway.

❑ Draw up a vision document for a vibrant and resilient urban co-operative banking sector.

The committee will submit its report within three months from the date of its first meeting. To read more, please click here.

Loans and Advances to Directors

The Reserve Bank on February 05, 2021 advised the heads of all UCBs that the extant directions on the subject issued to UCBs have been reviewed keeping in view The Banking Regulation Act, 1949 ("the Act") amended by the Banking Regulation (Amendment) Act, 2020. The revised directions issued are as under :

❑ UCBs shall not make, provide or renew any loans and advances or extend any other financial accommodation to or on behalf of their directors or their relatives, or to the firms/companies/concerns in which the directors or their relatives are interested.

❑ The directors or their relatives or the firms/companies /concerns in which the directors or their relatives are interested shall also not stand as surety/guarantor to the loans and advances or any other financial accommodation sanctioned by UCBs.

To read more, please click here.

Investment in NBFCs

The Reserve Bank on February 12, 2021 advised NBFCs and Asset Reconstruction Companies that a jurisdiction whose name does not appear in the list of the Financial Action Task Force (FATF) publications shall be referred to as a FATF compliant jurisdiction. Investments in NBFCs from FATF non-compliant jurisdictions shall not be treated at par with that from the compliant jurisdictions. Investors in existing NBFCs holding their investments prior to the classification of the source or intermediate jurisdiction/s as FATF non-compliant, may continue with the investments or bring in additional investments as per extant regulations so as to support continuity of business in India. To read more, please click here.

HFC Directions, 2021

For the purpose of enabling the Reserve Bank to regulate the financial system to the advantage of the country and to prevent the affairs of any Housing Finance Company (HFCs) from being conducted in a manner detrimental to the interest of investors and depositors, the Reserve Bank on February 17, 2021, issued the Master Direction - Non-Banking Financial Company – Housing Finance Company (Reserve Bank) Directions, 2021. These directions would cover maintenance of liquidity coverage ratio, risk management, asset classification and loan-to-value ratio for HFCs. To read more, please click here.

III. Supervision

RBIA in NBFCs/UCBs

The Reserve Bank on February 03, 2021 issued a circular on Risk Based Internal Audit (RBIA) covering all deposit taking NBFCs; all non-deposit taking NBFCs (including Core Investment Companies) with asset size of ₹5,000 crore and above; and primary UCBs with asset size of ₹500 crore and above. The circular intends, inter alia, to provide the essential requirements for a robust internal audit function, which include sufficient authority, stature, independence, resources and professional competence, so as to align these requirements in larger NBFCs/UCBs with those stipulated for SCBs. To read more, please click here.

Digital Payment Security Controls

The Reserve Bank on February 18, 2021 released the "Master Direction on Digital Payment Security Controls". The Master Direction provides necessary guidelines for the Regulated Entities (SCBs, small finance banks, payment banks and credit card issuing NBFCs) to set up a robust governance structure and implement common minimum standards of security controls for digital payment products and services. The guidelines are technology and platform agnostic and would create an enhanced and enabling environment for customers to use digital payment products in a more safe and secure manner. To read more, please click here.

IV. Payment and Settlement Systems

Deadline for Umbrella Entity on Retail Payments Extended

The Reserve Bank on February 26, 2021 extended the timeline for making the application for authorisation as a pan-India umbrella entity for retail payments up to March 31, 2021, keeping in view the COVID-19 related disruptions and inconveniences. The Reserve Bank had released the framework for authorisation of pan-India Umbrella Entity for retail payments on August 18, 2020 and invited applications from desirous entities. Given the process involved for complying with the framework prescriptions, a timeline of six months was provided therefore, i.e., up to February 26, 2021. To read more, please click here.

V. Foreign Exchange

Margin for Derivative Contracts

The Reserve Bank on February 15, 2021 issued the following directions to all authorised dealer category-I banks (AD cat-1 banks) to allow posting and collection of margin for permitted derivative contracts between a person resident in India and a person resident outside India:

i) AD cat-I banks may post and collect margin in India, on their own account or on behalf of their customers, for a permitted derivative contract entered into with a person resident outside India in the form of Indian currency; freely convertible foreign currency; debt securities issued by Indian Central Government and State Governments; Rupee bonds issued by persons resident in India which are Listed on a recognized stock exchange in India and assigned a credit rating of AAA issued by a rating agency registered with the Securities and Exchange Board of India. If different ratings are accorded by two or more credit rating agencies, then the lowest rating shall be reckoned.

ii) AD cat-I banks may post and collect such margin outside India in the form of freely convertible foreign currency; and debt securities issued by foreign sovereigns with a credit rating of AA- and above issued by S&P Global Ratings/Fitch Ratings or Aa3 and above issued by Moody's Investors Service.

iii) AD cat-I banks may receive and pay interest on margin posted and collected on their own account or on behalf of their customers for a permitted derivative contract entered into with a person resident outside India.

iv) AD cat-I banks shall maintain a separate account in the name of persons resident outside India for the purpose of posting and collecting cash margin in India, and transactions incidental thereto.

To read more, please click here.

Remittances to IFSCs under the LRS

The Reserve Bank on February 16, 2021 decided to permit resident individuals to make remittances under Liberalised Remittance Scheme (LRS) to International Financial Services Centres (IFSCs) set up in India under the Special Economic Zone Act, 2005, as amended from time to time. Accordingly, AD category-I banks may allow resident individuals to make remittances under LRS to IFSCs in India, subject to the following conditions:

i) The remittance shall be made only for making investments in IFSCs in securities, other than those issued by entities/companies resident (outside IFSC) in India.

ii) Resident individuals may also open a non interest

bearing Foreign Currency Account (FCA) in IFSCs, for making the above permissible investments under LRS.
iii) Resident individuals shall not settle any domestic transactions with other residents through these FCAs held in IFSC.

AD Category-I banks, while allowing such remittances, shall ensure compliance with all other terms and conditions, including reporting requirements prescribed under the Scheme. To read more, please click here.

VI. Financial Markets

Draft Credit Derivatives Directions, 2021

The Reserve Bank of India on February 15, 2021 released the Draft Reserve Bank of India (Credit Derivatives) Directions, 2021. These Directions shall apply to credit derivatives transactions undertaken in Over-the-Counter (OTC) markets and on recognised stock exchanges in India. Comments on the Draft Directions are invited from banks, market participants and other interested parties by March 15, 2021. Feedback on the Draft Directions may be forwarded to The Chief General Manager, Reserve Bank of India, Financial Markets Regulation Department. To read more, please click here.

VII. Financial Inclusion

Financial Literacy Week 2021

The Reserve Bank observed Financial Literacy Week (FLW) from February 8-12, 2021. The theme selected for current year FLW is "Credit Discipline and Credit from Formal Institutions". This theme is one of the strategic objectives of the National Strategy for Financial Education 2020-2025. Focus was on a) responsible borrowing; b) borrowing from formal institutions and c) timely repayments.

During the Financial Literacy Week, banks were advised to disseminate the information and create awareness among its customers and general public. Further, the Reserve Bank undertook a centralised mass media campaign during the month of February 2021 to broadcast essential financial awareness messages to general public. To read more, please click here.

VIII. Reports

Report on Currency and Finance

The Reserve Bank on February 26, 2021 released the Report on Currency and Finance (RCF) for the year 2020-21. The theme of the Report is "Reviewing the Monetary Policy Framework" which assumes topical relevance in the context of the review of the inflation target by March 2021 against the backdrop of structural changes in the macroeconomic and financial landscape that have prompted several central banks to undertake policy framework reviews.

The highlights of the report are as under :

- ❑ In the international experience, inflation targeting emerging market economies (EMEs) have generally lowered their inflation targets and narrowed tolerance bands.
- ❑ During the period under review, headline CPI inflation averaged 3.9 per cent in India with a decline in inflation volatility, attesting to the success of flexible inflation targeting (FIT) in terms of its primary mandate.
- ❑ Trend inflation to which actual inflation converges after a shock provides an appropriate benchmark for the inflation target; trend inflation has fallen from above 9 per cent before FIT to a range of 3.8 – 4.3 per cent during FIT, indicating that 4 per cent is the appropriate level of the inflation target for India.
- ❑ Threshold inflation above which growth is unambiguously impaired ranges between 5 and 6 per cent in India, indicating that an inflation rate of 6 per cent is the appropriate upper tolerance limit for the inflation target.
- ❑ The current numerical framework for defining price stability, i.e., an inflation target of 4 per cent with a +/-2 per cent tolerance band, is appropriate for the next five years.
- ❑ During the FIT period, monetary transmission has been full and reasonably swift across the money market but less than complete in the bond markets.
- ❑ In the conduct of monetary policy in an open economy setting, foreign exchange reserves and associated liquidity management are key; hence, there is a need to enhance the Reserve Bank's sterilisation capacity to deal with surges in capital flows.
- ❑ The primary focus of FIT on price stability augurs well for further liberalisation of the capital account and eventual internationalisation of the Indian rupee.

To read more, please click here.

Annual Report of Ombudsman Schemes

The Reserve Bank on February 08, 2021 released the Annual Report of the "Ombudsman Schemes of the Reserve Bank for the year 2019-20". The Annual Report covers the activities under the Banking Ombudsman Scheme (BOS), the Ombudsman Scheme for Non-Banking Financial Companies (OSNBFC) and the Ombudsman Scheme for Digital Transactions (OSDT); the developments in the area of consumer protection and the way forward. Some highlights from the Annual Report are as follows :

- ❑ There was an increase of 64.97 per cent in the receipt of complaints under the three Ombudsman Schemes, from 2,00,362 complaints in 2018-19 to 3,30,543 complaints in 2019-20. Of these, 86.19 per cent were received electronically, that is, through CMS online portal and email.
- ❑ Despite surge in receipt of complaints, disposal rate of more than 92 per cent was achieved. Around 72 per cent of the maintainable complaints were resolved through mediation and conciliation.
- ❑ Root cause analysis of the complaints received was undertaken to identify the major concerns, systemic issues and to formulate remedial measures to address the concerns.
- ❑ The three Ombudsman Schemes are being merged and integrated into a single scheme which will be rolled out starting from June 2021.

To read more, please click here.

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