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MONETARY AND CREDIT INFORMATION REVIEW

Payment and Settlement Systems

RBI seeks Comments on Issuance and Operation of PPIs in India

The Reserve Bank on March 20, 2017 placed the Draft Circular on "Master Directions on Issuance and Operation of Pre-paid Payment Instruments (PPIs) in India" on its website for public comments. The purpose of preparing the Master Directions are:

- To provide a framework for regulation, authorisation and supervision of entities operating payment systems for issuance of Prepaid Payment Instruments (PPIs) in the country;
- To encourage innovation in this segment in a prudent manner taking into account safety and security along with customer protection and convenience.

The comments/suggestions/feedback, if any, may be sent by post to the Chief General Manager–In-Charge, Department of Payment and Settlement Systems, Reserve Bank of India, Central Office, 14th Floor, Shahid Bhagat Singh Marg, Mumbai-400001, or by mail to ppifeedback@rbi.org.in, on or before April 15, 2017. Earlier, the comments/suggestions/feedback, were to be sent to the Reserve Bank on or before March 31, 2017. The salient features of the draft circular on Master Directions are:

Eligibility to issue semi-closed and open system PPIs

Banks who comply with the eligibility criteria, including those stipulated by the concerned regulatory department of the Reserve Bank, shall be permitted to issue all categories of PPIs, after obtaining approval from the Department of Payment and Settlement Systems, Reserve Bank of India. However, taking into account the technical requirements, only those banks providing mobile banking facilities to their customer, shall issue mobile phone-based PPIs (for example, mobile wallets). Other entities, including Non-Banking Financial Companies (NBFCs), shall be permitted to issue only semi-closed system PPIs, including mobile phone-based PPIs (for example, mobile wallets).

Safeguards against Money Laundering (KYC/AML/CFT) Provisions

The Know Your Customer/Anti-Money Laundering/Combating Financing of Terrorism guidelines issued by the Reserve Bank, from time to time, shall apply mutatis mutandis to all the entities issuing PPIs. As PPI issuers are operating a Payment System, provisions of Prevention of Money Laundering Act, 2002 and Rules framed thereunder, as amended from time to time, are also applicable to PPI issuers. Entities shall put in place necessary systems to ensure compliance with these guidelines. PPI Issuers shall maintain a log of all the transactions undertaken using the PPIs issued by them. This data shall be made available for scrutiny by the Reserve Bank or any other agency / agencies as may be advised by the Reserve Bank. The Issuers shall also file Suspicious Transaction Report (STR) to Financial Intelligence Unit – India (FIU-IND).

Issuance, loading and reloading of PPIs

All entities authorised to issue PPIs by the Reserve Bank are permitted to issue reloadable or non-reloadable PPIs depending upon the permissible category of PPIs. Issuers shall have a clearly laid down policy, with Board approval, for issuance of various categories of PPIs and all activities related thereto.

Types of Prepaid Payment Instruments

The maximum value of any PPI, where specific limits have not been prescribed, shall not exceed ₹ 50,000/-. Banks and authorised non-bank entities shall be permitted to issue certain types of semi closed PPIs, such as, (i) PPIs upto ₹ 20,000/- by accepting minimum details of the customer; (ii) PPIs upto ₹1,00,000/- with full KYC; on carrying out customer due diligence as indicated for each type of PPI.

Apart from the directions relating to the migration of existing minimum details of semi-closed PPIs issued by banks and non-banks and issuance of open system PPIs by banks, the draft Master Directions also talks about the guidelines relating to issuance of specific categories of PPIs, such as, prepaid gift instruments; prepaid meal instruments; PPIs for credit of cross border inward remittance; PPI for Mass Transit Systems (PPI-MTS) and action to be initiated in case of existing specific categories of PPIs issued by banks.

The draft circular on Master Directions also enlists the major changes relating to deployment of money collected; validity of PPIs; transaction limit and monthly caps on purchase of goods and services using PPIs; security; customer service and protection related aspects, such as, safety and security of the transactions as also the system; risk mitigation measures; complaint redressal mechanism; forfeiture of unutilised balances; fraud monitoring and reporting requirements.

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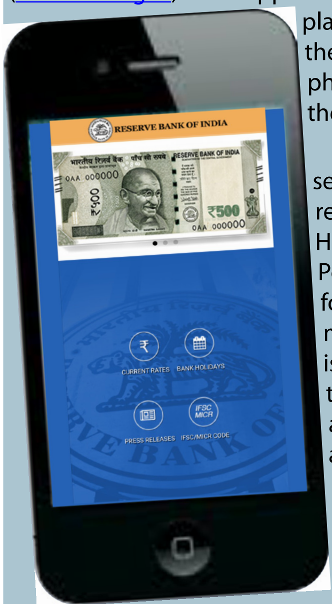
Now RBI Website at your fingertips

The Reserve Bank on March 9, 2017 formally launched a mobile application (app) version of the Reserve Bank of India's website (www.rbi.org.in). The app is available on Android as well as iOS platforms and can be downloaded from the Play Store/App Store in one's Android phone/iPhone, respectively, using the keyword "Reserve Bank of India".



To start with, the most accessed sections of the website : press releases, IFSC/ MICR codes, Bank Holidays and Current Rates including Policy rates and reference rate of four major currencies – have been made available on the app. There is a dynamic window on the top of the landing page of the app which alternatingly displays three public awareness messages - the new design currency notes of ₹ 2000 and ₹ 500 denominations as well as RBI's message on KYC under the "RBI Kehta Hai" series. On clicking on any of these, the user can open and read the full text of the public awareness message issued. The user can also activate the feature of 'push' notification to get an alert on new releases.

Users could send their suggestions and feedback on making the app more useful and interesting by mail to websitefeedback@rbi.org.in. (https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=39797)

Background

The Reserve Bank has, from time to time, issued a number of circulars containing policy guidelines on Issuance and Operation of Prepaid Payment Instruments (PPIs) in India. These Master Directions have been prepared to facilitate the Prepaid Payment Instrument Issuers, System Providers, System Participants and all other Prospective Prepaid Payment Instrument Issuers to have all the extant instructions on the subject at one place.

As indicated in the Press Release dated September 02, 2016, the receipt of fresh applications from banks and non-banks for grant of authorisation to operate a payment system for PPI under Payment and Settlement Systems Act, 2007 was suspended till February 28, 2017. It has now been decided to extend the date till release of final guidelines. (https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=39883)

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10890&Mode=0)

(https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=40005)

Financial Inclusion and Development

Policy for Financial Literacy by FLCs and Rural Branches

Given the recent developments on withdrawal of legal tender status of Specified Bank Notes and the focus on going digital, the Reserve Bank on March 2, 2017 has revised the policy on conduct of camps by Financial Literacy Centres (FLCs) and rural branches of the banks as under:

- Financial Literacy Centres(FLCs) are advised to conduct special camps for a period of one year beginning April 1, 2017 on "Going digital" through Unified Payment Interface (UPI) and *99# (USSD)". Two posters, one on UPI and one on *99# have been prepared for the benefit of the trainers and the audience. The English, Hindi and local language versions of the two posters are available at the financial education webpage of the Reserve Bank for download and printing purposes. While the A2 and A3 sizes can be used by trainers, A4 and A5 sizes can be distributed to the general public during the camps.

  Besides the special camps on going digital, FLCs will continue to conduct the tailored camps for the different target groups. The tailored content for each target group is currently being prepared and is expected to be shared with banks/FLCs in due course of time.

- Rural branches of banks are henceforth required to conduct only one camp per month (on the Third Friday of each month after branch hours). This camp will cover all the messages that are part of the Financial Awareness Messages (FAME) booklet and the two digital platforms UPI and *99# (USSD). In case there are two or more rural branches in a village, the Lead District Manager (LDM) may ensure that the rural branches conduct the camps on rotation basis every month.

Funding support from Financial Inclusion Fund (FIF)

FLCs and rural branches of banks are eligible for funding support for the financial literacy camps to the extent of 60 per cent of the expenditure of the camp subject to a maximum of ₹ 15,000/- per camp.

The above guidelines will come into force from April 1, 2017 and the revised reporting formats will be effective from the quarter ending June 30, 2017.

The impact of the financial literacy camps will be assessed/evaluated on an ongoing basis by the Lead District Officers (LDOs) of the Reserve Bank.

Background

FLCs (Financial Literacy Centres) and rural branches were advised to conduct two types of camps, such as, Special camps for people newly inducted into the financial system (one camp per month) for a period of one year and target group specific camps one each for five target groups, such as, farmers, small entrepreneurs, school children, senior citizens and Self Help Groups (SHGs).The one year period for conduct of special camps for people newly inducted into the financial system came to an end in January 2017. (https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10869&Mode=0)

Foreign Exchange Management

Hedging Guidelines amended

With a view to providing operational flexibility to multinational entities and their Indian subsidiaries exposed to currency risk arising out of current account transactions emanating in India, the Reserve Bank on March 21, 2017 amended the existing hedging guidelines. The purpose was to provide operational flexibility for booking derivative contracts to hedge the currency risk arising out of current account transactions of Indian subsidiaries of Multi-National Companies (MNCs). The salient features of the Operational flexibility for Indian subsidiaries of Non-resident Companies are:

Users

Non-resident parent of an Indian subsidiary or its centralised treasury or its regional treasury outside India.

Products

All Foreign Currency- Indian National Rupee (FCY-INR) derivatives, Over- the – counter (OTC) as well exchange traded that the Indian subsidiary is eligible to undertake.

Operational Guidelines, Terms and Conditions for hedging

- The transactions under this facility will be covered under a tri-partite agreement involving the Indian subsidiary, its non-resident parent / treasury and the AD bank. This agreement will include the exact relationship of the Indian subsidiary or entity with its overseas related entity, relative roles and responsibilities of the parties and the procedure for the transactions, including settlement. The International Swaps and Derivatives Association (ISDA) agreement between the AD bank and the non-resident entity will be distinct from this agreement.

- The non-resident entity should be incorporated in a country that is member of the Financial Action Task Force (FATF) or member of a FATF-Style Regional body.
- The AD Bank may obtain Know Your Customer/ Anti-money laundering (KYC/ AML) certification.
- The non-resident entity may approach an AD Cat-I bank directly which handles the foreign exchange transactions of its subsidiary for booking derivative contracts to hedge the currency risk of and on the latter's behalf.
- The non-resident entity may contract any product either under the contracted route or on past performance basis, which the Indian subsidiary is eligible to use.
- The Indian subsidiary shall be responsible for compliance with the rules, regulations and directions.
- The profit/ loss of the hedge transactions shall be settled in the bank account and books of accounts of the Indian subsidiary. The AD bank shall obtain from the Indian subsidiary an annual certificate by its Statutory Auditors to this effect.
- The concerned AD Bank shall be responsible for monitoring all hedge transactions (OTC as well as exchange traded) booked by the non-resident entity and ensuring that the Indian subsidiary has the necessary underlying exposure for the hedge transactions.
- AD banks shall report hedge contracts booked under this facility by the non-resident related entity to Clearing Corporation of India Ltd. (CCIL)'s trade repository with a special identification tag.

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10891&Mode=0)

FDI in Limited Liability Partnerships

The Reserve Bank on March 3, 2017 amended the Foreign Exchange Management (Transfer or issue of Security by a Person Resident outside India) as under:

Foreign Direct Investment (FDI-LLP) in Limited Liability Partnerships (LLP)

Eligible Investors

A person resident outside India (other than a citizen of Pakistan or Bangladesh) or an entity incorporated outside India (other than an entity in Pakistan or Bangladesh), not being a Foreign Portfolio Investor or Foreign Institutional Investor or Foreign Venture Capital Investor registered in accordance with SEBI guidelines, may contribute foreign capital either by way of capital contribution or by way of acquisition / transfer of profit shares in the capital structure of an Limited Liability Partnership (LLP).

Contribution to the capital of an LLP would be an eligible investment under the scheme. Foreign direct investment (FDI) in LLPs is permitted, subject to certain conditions.

Pricing

FDI in an LLP either by way of capital contribution or by way of acquisition / transfer of profit shares, would have to be more than or equal to the fair price as worked out with any valuation norm which is internationally accepted / adopted as per market practice and a valuation certificate to that effect shall be issued by the Chartered Accountant or by a practicing Cost Accountant or by an approved valuer from the panel maintained by the Central Government.

In case of transfer of capital contribution / profit share from a resident to a non-resident, the transfer shall be for a consideration equal to or more than the fair price of capital contribution / profit share of an LLP. Further, in case of transfer of capital contribution / profit share from a non-resident to resident, the transfer shall be for a consideration which is less than or equal to the fair price of the capital contribution / profit share of an LLP.

Mode of Payment

Payment by an investor towards capital contribution in LLPs shall be made (i) by way of inward remittance through banking channels; or (ii) by debit to NRE / FCNR(B) account of the person concerned, maintained with an AD Category - I bank.

Reporting

(i) Reporting of foreign investment in LLPs and disinvestment/ transfer of capital contribution or profit shares between a resident and a non-resident may be made in a manner as prescribed by the Reserve Bank from time to time.

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Sd/-
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Signature of Publisher
Date : March 1, 2017

Branches of State Bank Associates and BMBL to operate as SBI Branches from April 1

All branches of Associate Banks of the State Bank of India, namely, State Bank of Bikaner and Jaipur (SBBJ), State Bank of Hyderabad (SBH), State Bank of Mysore (SBM), State Bank of Patiala (SBP) and State Bank of Travancore (SBT) will function as branches of State Bank of India as well as Bharatiya Mahila Bank Limited (BMBL) from April 1, 2017. Customers, including depositors of these Associate Banks of the State Bank of India and BMBL will be treated as customers of State Bank of India with effect from April 1, 2017.

The Government of India has issued the Acquisition of State Bank of Bikaner and Jaipur Order 2017, Acquisition of State Bank of Hyderabad Order 2017, Acquisition of State Bank of Mysore Order 2017, Acquisition of State Bank of Patiala Order 2017 and Acquisition of State Bank of Travancore Order 2017. The orders dated February 22, 2017 issued by the Government of India were published under Extraordinary Part II-Section 3-Sub-section (i) in the Gazette of India sanctioning the Acquisition of State Bank of Bikaner and Jaipur, State Bank of Hyderabad, State Bank of Mysore, State Bank of Patiala and State Bank of Travancore by State Bank of India in terms of sub section (2) of Section 35 of the State Bank of India Act, 1955 (23 of 1955).

The Government of India has issued the Acquisition of Bharatiya Mahila Bank Limited Order 2017. The Order dated March 20, 2017 issued by the Government of India was published under Extraordinary Part II-Section 3-Sub-section (i) in the Gazette of India sanctioning the acquisition of Bharatiya Mahila Bank Limited by State Bank of India in terms of sub section (2) of Section 35 of the State Bank of India Act, 1955 (23 of 1955).

(https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=39915)

(https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=39884)

(ii) All LLPs which have received FDI in the previous year(s) including the current year shall submit to the Reserve Bank, on or before the 15th day of July of each year, a report titled 'Annual Return on Foreign Liabilities and Assets' as specified by the Reserve Bank from time to time." (https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10876&Mode=0)

Insertion of sub-regulations on E-Commerce

The Reserve Bank of India on March 9, 2017 amended the Foreign Exchange Management (Transfer or issue of Security by a Person Resident outside India) Regulations, 2000 by inserting the following sub-regulations:

- 'E-commerce' means buying and selling of goods and services including digital products over digital & electronic network.
- 'E-commerce entity' means a company incorporated under the Companies Act, 1956 or the Companies Act, 2013 or a foreign company covered or an office, branch or agency in India owned or controlled by a person resident outside India and conducting the e-commerce business.
- 'Inventory based model of e-commerce' means an e-commerce activity where inventory of goods and services is owned by e-commerce entity and is sold to the consumers directly.
- 'Market place model of e-commerce' means providing of an information technology platform by an e-commerce entity on a digital and electronic network to act as a facilitator between buyer and seller."

Amendment of Schedule 1

In the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2000, the regulation pertaining to E-commerce activities has been amended as under:

E-Commerce	Percentage of equity/FDI Cap	Entry route
B2B E-commerce activities	100 per cent	Automatic
Market place model of e-commerce	100 per cent	Automatic

B2B E-commerce activities- Such companies would engage only in Business to Business (B2B) e-commerce and not in retail trading, inter alia implying that existing restrictions on FDI in domestic trading would be applicable to e-commerce as well.

Other Conditions

- Digital and electronic network will include network of computers, television channels and any other internet application used in automated manner such as web pages, extranets, mobiles etc.
- Marketplace e-commerce entity will be permitted to enter into transactions with sellers registered on its platform on B2B basis.
- E-commerce marketplace may provide support services to sellers in respect of warehousing, logistics, order fulfilment, call centre, payment collection and other services.
- E-commerce entity providing a marketplace will not exercise ownership over the inventory, that is, . goods purported to be sold. Such an ownership over the inventory will render the business into inventory based model.
- An e-commerce entity will not permit more than 25 per cent of the sales value on financial year basis affected through its marketplace from one vendor or their group companies.
- Goods/services made available for sale electronically on website should clearly provide name, address and other contact details of the seller. Post sales, delivery of goods to the customers and customer satisfaction will be responsibility of the seller.
- Payments for sale may be facilitated by the e-commerce entity in conformity with the guidelines of the Reserve Bank.
- Any warranty /guarantee of goods and services sold will be responsibility of the seller.
- E-commerce entities providing marketplace will not directly or indirectly influence the sale price of goods or services and shall maintain level playing field.

Note: FDI is not permitted in inventory based model of e-commerce.

As per the amendment, sale of services through e-commerce shall be under automatic route subject to the sector specific conditions, applicable laws/regulations, security and other conditionalities. (https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10884&Mode=0)

Government and Bank Accounts

Gold Monetisation Scheme

In order to have uniformity in reporting, reconciliation and accounting, the Reserve Bank on March 6, 2017 advised agency banks to report the Gold Monetisation Scheme transactions, that is, receipt, payment, penalty, interest, commission for mobilisation, handing charges, directly through the government account maintained for the purpose at Central Accounts Section, Reserve Bank of India, Nagpur, on a daily basis as in the case of the transactions of Public Provident Fund (PPF) Scheme, 1968. Applicants may, therefore, approach Central Accounts Section, Reserve Bank of India, Nagpur for necessary arrangements to report Gold Monetisation Scheme transactions with immediate effect. (https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10877&Mode=0)

Reporting and Accounting of Central Govt Transactions

The Reserve Bank in consultation with the Government of India on March 16, 2017 has decided that the date of closure of residual transactions of Central Government Accounts (including Central Board of CBDT, CBEC, departmentalised ministries and non-Civil Ministries) for the month of March 2017 be fixed as April 10, 2017 for the Financial Year 2016-17. In view of the ensuing closing of government accounts for the financial year 2016-17, receiving branches including those not situated locally, should adopt special arrangements such as courier service etc., for passing on challans/scrolls etc., to the Nodal/Focal Point branches so that all payments and collections made on behalf of government towards the end of March are accounted for in the same financial year. These instructions regarding special messenger arrangements may please be informed to all branches concerned.

To sum up, the Nodal/Focal Point branches will be required to prepare separate sets of scrolls, one pertaining to March residual transactions and another for April transactions during the first ten days of April 2017. The Nodal/Focal Point branches should also ensure that the accounts for all transactions (revenues/tax collections/payments) are effected at the receiving branches up to March 31, 2017 in the accounts for the current financial year itself and are not mixed up with the transactions of April 2017. Also, while reporting transactions pertaining to March 2017 up to April 10, 2017, the transactions of April 2017 should not be mixed up with the residual transactions relating to March 2017. (https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10885&Mode=0)

Annual Closing of Government Accounts

The Reserve Bank in consultation with the Government of India on March 16, 2017 has advised that all government transactions with banks must be accounted for within the same financial year and has requested that certain special arrangements be made for the purpose, as in previous years. Accordingly, all agency banks should keep the counters of their designated branches conducting government business open for government transactions up to 6.00 p.m. on March 30, 2017 and up to 8.00 p.m. on March 31, 2017. All electronic transactions would, however, continue till midnight on March 31, 2017. Banks may give adequate publicity to the special arrangements made. (https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10886&Mode=0)

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