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Monetary and Credit Information Review

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Banking Regulation

Master Direction on Financial Services provided by Banks amended

The Reserve Bank of India on September 25, 2017, amended the Master Direction on Financial Services provided by Banks as under:

i) No bank should -

- Hold more than 10 per cent in the equity of a deposit taking NBFC provided that this does not apply to a housing finance company;
- Make an investment of more than 10 per cent of the unit capital of a Real Estate Investment Trust/Infrastructure Investment Trust subject to overall ceiling of 20 per cent of its net worth permitted for direct investments in shares, convertible bonds/debentures, units of equity-oriented mutual funds and exposures to Alternative Investment Funds;
- Hold more than 10 per cent of the paid up capital of a company, not being its subsidiary engaged in non-financial services or 10 per cent of the bank's paid up capital and reserves, whichever is lower, provided investments in excess of 10 per cent but not exceeding 30 per cent of the paid up share capital of such investee company should be permissible under select circumstances;
- Hold along with its subsidiaries, associates or joint ventures or entities directly or indirectly controlled by the bank; and mutual funds managed by Asset Management Companies (AMCs) controlled by the bank, more than 20 per cent of the paid up share capital of an investee company engaged in non-financial services. However, this cap does not apply to certain cases as indicated;
- Make any investment in a Category III Alternative Investment Fund (AIF). Investment by a bank's subsidiary in a Category III AIF should be restricted to the regulatory minima prescribed by SEBI.

(ii) In addition to certain minor amendments made in the Master Direction, the Reserve Bank, in its amended Master Direction on Financial Services provided by Banks, advised the commercial banks to ascertain the risks arising on account of equity investments in alternative investment funds done directly or through their subsidiaries, within the Internal Capital Adequacy Assessment Process (ICAAP) framework and determine the additional capital required which would be subject to supervisory examination as part of Supervisory Review and Evaluation Process. This should also be applicable to sponsoring of Infrastructure Debt Funds by banks.

(iii) The Reserve Bank further advised that no bank should become a professional clearing member of the commodity derivatives segment of SEBI recognised exchanges unless it satisfies the prudential criteria as prescribed and should do so subject to certain conditions.

(iv) On 'Broking services for Commodity Derivatives segment', the Reserve Bank advised the banks that no bank should offer broking services for the commodity derivatives segment of SEBI recognised stock exchanges except through a separate subsidiary set up for the purpose or one of its existing subsidiaries and should do so subject to certain conditions.

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11129&Mode=0)

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Foreign Exchange Management

Investment by Foreign Portfolio Investors

Revision of Limits for Oct-Dec 2017

The Reserve Bank on September 28, 2017, increased the limits for investment by Foreign Portfolio Investors (FPI) for the quarter October-December 2017 by Indian Rupee (INR) 80 billion in Central Government Securities and INR 62 billion in State Development Loans. The revised limits are allocated as per the modified framework given as under.

Limits for FPI investment in Government Securities

₹ Billion

Quarter Ending	Central Government securities			State Development Loans			Aggregate
	General	Long Term	Total	General	Long Term	Total	
Existing Limits	1877	543	2420	285	46	331	2751
December 31, 2017	1897	603	2500	300	93	393	2893

The revised limits will be effective from October 3, 2017.

The operational guidelines relating to allocation and monitoring of limits will be issued by the Securities and Exchange Board of India (SEBI).

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11132&Mode=0)

Investment by FPIs in Corporate Debt Securities reviewed

On a review, and to further harmonise norms for Masala Bonds issuance with the External Commercial Borrowings (ECBs) guidelines, the Reserve Bank on September 22, 2017 made the following changes:

With effect from October 3, 2017, Masala Bonds will no longer form a part of the limit for Foreign Portfolio Investors (FPIs) investments in corporate bonds. They will form a part of the ECBs and will be monitored accordingly. Eligible Indian entities proposing to issue Masala Bonds may approach Foreign Exchange Department, Reserve Bank of India, Central Office, Mumbai.

Limit for FPI Investments in Corporate Bonds

	Amount (₹ crore)
1. Current FPI limits for corporate bonds (including masala Bonds)	2,44,323
(a) of which Masala Bonds (including pipeline)	44,001
2. FPI limit after shifting Masala Bonds to ECB (1-(a)	2,00,322
3. Additional limit for Q3 FY18	27,000
4. FPI limit for corporate bonds from 03 Oct 2017 (2+3)	2,27,322
of which reserved for investment by long term FPIs in infrastructure	9,500
5. Additional limit for Q4 FY18	17,001
6. FPI limit for corporate bonds from January 01, 2018 (4+5)	2,44,323
of which reserved for investment by long term FPIs in infrastructure	9,500

The amount of ` 44,001 crore arising from shifting of Masala Bonds will be released for FPI investment in corporate bonds over the next two quarters.

An amount of ₹ 9,500 crore in each quarter will be available only for investment in infrastructure sector by long term FPIs (i.e., Sovereign Wealth Funds, Multilateral Agencies, Endowment Funds, Insurance Funds, Pension Funds and Foreign Central Banks). The definition of 'Infrastructure' shall be the same as defined under the Master Direction on ECBs issued by the Reserve Bank of India. Long term FPIs will continue to be eligible to invest in sectors other than infrastructure.

Background

Currently, the limit for investment by FPIs in corporate bonds is ₹ 244,323 crore. This includes issuance of Rupee denominated bonds overseas (Masala Bonds) by resident entities of ₹ 44,001 crore (including pipeline). The Masala Bonds are presently reckoned both under Combined Corporate Debt Limit (CCDL) for FPI and External Commercial Borrowings (ECBs).

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11127&Mode=0)

Half Yearly Report on Management of Forex Reserves

The Reserve Bank on September 26, 2017 released the 28th half yearly report on management of foreign exchange reserves with reference to end-March 2017.

The position of foreign exchange reserve as on September 15, 2017 is as under:

	US $ Billion
Foreign Exchange Reserves (i+ii+iii+iv)	402.5
i. Foreign Currency Assets (FCA)	378.0
ii. Gold	20.7
iii. Special Drawing Rights (SDR)	1.5
iv. Reserve Tranche Position (RTP)	2.3

It may be recalled that in February 2004, the Reserve Bank had started a process of compiling half yearly reports and placing them in the public domain for bringing about more transparency and enhancing the level of disclosure in relation to management of the country's foreign exchanges reserves.

Issuance of Rupee Denominated Bonds Overseas

The Reserve Bank on September 22, 2017, in consultation with the Government of India, excluded issuances of Rupee Denominated Bonds (RDBs) from the limit for investments by Foreign Portfolio Investors (FPI) in corporate bonds with effect from October 3, 2017. Consequently, additional email reporting of RDB transactions for onward reporting to depositories has been dispensed with. However, the reporting of RDBs would continue as per the extant External Commercial Borrowings (ECB) norms.

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11128&Mode=0)

Issuance of Electronic Bank Realisation Certificate

The Reserve Bank on September 15, 2017, directed Authorised Dealer (AD) Category-I banks to update the Export

Data Processing and Monitoring System (EDPMS) with data of export proceeds on "as and when realised basis" and, with effect from October 16, 2017 generate Electronic Bank Realisation Certificate (eBRC) only from the data available in EDPMS, to ensure consistency of data in EDPMS and consolidated eBRC.

Background

AD–Category I banks were advised to carry out appropriate changes in their IT system/operating procedure immediately, report subsequent export transactions in EDPMS and also capture the details of advance remittances (including old outstanding inward remittances) received for exports in EDPMS.

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11119&Mode=0)

Non-Banking Regulation

Average Base Rate to be charged by NBFC-MFIs

The Reserve Bank on September 29, 2017, communicated that the applicable average base rate to be charged by Non-Banking Financial Company – Micro Finance Institutions (NBFC-MFIs) to their borrowers for the quarter beginning October 01, 2017 will be 9.06 per cent.

It may be recalled that the Reserve Bank had, in its circular dated February 7, 2014, issued to NBFC-MFIs regarding pricing of credit, stated that it will, on the last working day of every quarter, advise the average of the base rates of the five largest commercial banks for the purpose of arriving at the interest rates to be charged by NBFC-MFIs to its borrowers in the ensuing quarter.

(https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=41809)

Financial Market Regulation

Trade Repository for OTC Forex and Interest Rate Derivatives

The Reserve Bank on September 21, 2017, removed the threshold for reporting FCY-INR and FCY-FCY forward trades between Authorised Dealer (AD) Category-I banks and their clients with effect from October 3, 2017.

As a one-time measure, in order to update the outstanding balances in the Trade Repository (TR), AD Category-I banks are advised to report the following to the Clearing Corporation of India Limited (CCIL) by October 6, 2017:

- Over-the-Counter (OTC) currency option transactions between AD Category-I banks and their clients undertaken before April 2, 2013 and outstanding as on September 29, 2017
- OTC currency option transactions between AD Category-I banks and their clients, with value below USD 1 million and equivalent thereof in other currencies, undertaken from April 2, 2013 to July 3, 2016 and outstanding as on September 29, 2017.
- Currency forward transactions between AD Category-I banks and their clients, with value below USD 1 million and equivalent thereof in other currencies, and outstanding as on September 29, 2017.

AD Category-I banks are also advised to ensure that outstanding balances between their books and the TR are reconciled on an ongoing basis.

Background

A threshold of USD one million, and equivalent thereof in other currencies, was stipulated for reporting FCY-INR and FCY-FCY forward and options trades between AD Category-I banks and their clients to the Trade Repository (TR). Subsequently, CCIL, in consultation with Reserve Bank on June 2, 2016, had informed its members the removal of this threshold limit for reporting FCY-INR and FCY-FCY option trades with effect from July 04, 2016.

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11126&Mode=0)

Government and Bank Accounts

Reimbursement of Merchant Discount Rate Charges

The Reserve Bank on September 7, 2017, clarified that the full amount paid to the Government by the customers /through debit/credit cards should be remitted to the concerned Government Ministry/Department. The reimbursement of Merchant Discount Rate (MDR) charges on debit card use (up to ₹ 1 lakh) can be claimed separately from the Reserve Bank. Deduction of MDR charges from the receipts of the Government is not permissible at all.

The Reserve Bank also reiterated that MDR charges on debit card transactions above ₹ 1 lakh and on any credit card transaction, are not being absorbed by the Government of India and hence would not be reimbursed by the Reserve Bank. Accordingly, agency banks should not deduct MDR charges from the receipts of the Government in these cases as well.

Agency banks which have remitted the net amount of Government receipts after deduction of MDR charges to the Ministries/Departments in contravention of the guidelines referred to above are required to remit the MDR charges so deducted immediately to the concerned Ministry/Department under intimation to the Reserve Bank.

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11117&Mode=0)

Financial Inclusion and Development

Lending to Non-corporate Farmers

The Reserve Bank on September 21, 2017 has notified that the applicable system wide average number for computing achievement under priority sector lending for the financial year 2017-18 is 11.78 per cent.

Background

It was communicated earlier that the system-wide average of the last three years achievement with regard to overall direct lending to non-corporate farmers will be notified in due course, and thereafter at the beginning of each year.

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11124&Mode=0)

Publications

Mint Street Memos

The Reserve Bank since August 11, 2017 has been placing on its website analytical reports under a new section titled as "Mint Street Memos" (MSM). The views and opinions expressed in MSM series are those of the authors and do not necessarily represent the views of the Reserve Bank.The Mint Street Memos released on the RBI website so far, are :

- *Non-Bank Funding Sources and Indian Corporates* (released on September 29, 2017), authored by Dr. Apoorva Javadekar from the Centre for Advanced Financial Research and Learning (CAFRAL), analyses the non-bank funding sources for Indian corporate sector.
- *Farm Loan Waivers, Fiscal Deficit and Inflation* (released on September 11, 2017), co-authored by Pratik Mitra, Joice John and Ashish Thomas George from the Monetary Policy Department and Indranil Bhattacharyya and Indrani Manna from the Department of Economic and Policy Research, analyses the impact on the economy of the decision of some Indian states having announced farm debt waivers recently, which bear ramifications for the fiscal burden of states over the medium term. Empirical estimates suggest that fiscal deficit can have an inflationary impact.
- *Agriculture Loan Bank Accounts*–A Waiver Scenario Analysis (released on September 11, 2017), co-authored by Rajendra Raghumanda, Ravi Shankar and Sukhbir Singh from Department of Statistics and Information Management, presents a scenario-based analysis of possible size of debt waiver using account level data on bank credit.
- *Market Reaction to the Banking Regulation* (Amendment) Ordinance, 2017 (released on August 24, 2017), co-authored by Nirupama Kulkarni, Sargam Jain and Khushboo Khandelwal from the Centre for Advanced Financial Research and Learning (CAFRAL), analyses the stock market reaction to the Banking Regulation (Amendment) Ordinance, 2017
- *Financialisation of Savings into Non-banking Financial Intermediaries* (released on August 11, 2017), co-authored by Manoranjan Dash, Bhupal Singh, Snehal Herwadkar and Rasmi Ranjan Behera, deliberates that an important positive impact of demonetisation has been to induce a shift towards formal channels of saving by households. During demonetisation and the subsequent period, there has been a distinct increase in saving flows into equity/debt oriented mutual funds and life insurance policies. Apart from this, non-banking financial companies (NBFCs) seem to have been positively impacted in terms of collections and disbursals. The challenge, going forward, would be channelising these funds into productive segments of the economy.
- *Demonetisation and Bank Deposit Growth* (released on August 11, 2017), co-authored by Bhupal Singh and Indrajit Roy, estimates that 'excess' bank deposit growth (y-o-y) following demonetisation has been in the range of 3.0-4.7 percentage points. In nominal terms, these estimates imply excess deposits that accrued to the banking system due to demonetisation to be in the range of ₹ 2.8-4.3 trillion. A micro-level analysis of unusual growth in cash deposits in specific types of accounts, which are usually marked by low level of activity, also support the findings. Such gains in terms of shift towards bank deposits, if durable, could have beneficial impact in the form of financialisation of savings.

(https://www.rbi.org.in/scripts/MSM_MintStreetMemos.aspx)

Handbook of Statistics on the Indian Economy 2016-17

The Reserve Bank on September 15, 2017 released the nineteenth volume of its annual publication titled "Handbook of Statistics (HBS) on the Indian Economy 2016-17". This publication is aimed at improving data dissemination by providing time series on various economic and financial indicators relating to the Indian economy.

The current volume contains two hundred and forty eight statistical tables covering national income aggregates, output, prices, money, banking, financial markets, public finances, foreign trade and balance of payments and select socio-economic indicators.

The electronic form of the Handbook can be accessed through (URL https://dbie.rbi.org.in) "Data Base on Indian Economy (DBIE): Reserve Bank's Data Warehouse." The tables in DBIE are updated regularly on a near-real time basis.

Comments and suggestions on the HBS are welcome and may kindly be forwarded to the Director, Data Management and Dissemination Division, Department of Statistics and Information Management, Reserve Bank of India, C-9, 3rd floor, Bandra-Kurla Complex, Bandra (East), Mumbai 400 051 by Fax No. 91-22-26571371 or by e-mail (dbiehelpdesk@rbi.org.in).

Orders for the purchase of this publication can be placed with the Chief General Manager, Sales and Distribution Division, Department of Corporate Service, Reserve Bank of India, Amar Building, Ground Floor, P. M. Road, Mumbai-400 001 on payment through demand draft or cheque drawn in favour of the Reserve Bank of India, payable at Mumbai only.

(https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=41680)

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