



Volume XI ♦ Issue 12
June 2015

**MONETARY AND CREDIT
INFORMATION REVIEW**

Banking Regulation

Strategic Debt Restructuring Scheme

The Reserve Bank, on June 8, 2015, advised all scheduled commercial banks (excluding regional rural banks), all-India term-lending and refinancing institutions (Exim Bank, NABARD, NHB and SIDBI) that under the "Framework for Revitalising Distressed Assets in the Economy – Guidelines on Joint Lenders' Forum (JLF) and Corrective Action Plan (CAP)", issued on February 26, 2014, the Joint Lenders' Forum (JLF) should actively consider change in ownership, in cases of restructuring of accounts when the borrower companies are not able to come out of stress due to operational/ managerial inefficiencies despite substantial sacrifices made by the lending banks.

Further, with a view to ensuring more stake of promoters in reviving stressed accounts and provide banks with enhanced capabilities to initiate change of ownership in accounts which fail to achieve the projected viability milestones, banks may, at their discretion, undertake a 'Strategic Debt Restructuring (SDR)' by converting loan dues to equity shares, which will have the following features:

(i) At the time of initial restructuring, the JLF must incorporate, in the terms and conditions attached to the restructured loan/s agreed with the borrower, an option to convert the entire loan (including unpaid interest), or part thereof, into shares in the company in the event the borrower is not able to achieve the viability milestones and/or adhere to 'critical conditions' as stipulated in the restructuring package. This should be supported by necessary approvals/ authorisations (including special resolution by the shareholders) from the borrower company, as required under extant laws/regulations, to enable the lenders to exercise the said option effectively. Restructuring of loans without the said approvals/authorisations for SDR is not permitted. If the borrower is not able to achieve the viability milestones and/or adhere to the 'critical conditions' referred to above, the JLF must immediately review the account and examine whether the account will be viable by effecting a change in ownership. If found viable under such examination, the JLF may decide on whether to invoke the SDR, i.e. convert the whole or part of the loan and interest outstanding into equity shares in the borrower company, so as to acquire majority shareholding in the company;

(ii) Provisions of the SDR would also be applicable to the accounts which have been restructured before the date of this circular, that is, June 8, 2015 provided that the necessary enabling clauses, as indicated in the above paragraph, are included in the agreement between the banks and borrower;

(iii) The decision on invoking the SDR by converting the whole or part of the loan into equity shares should be taken by the JLF as early as possible but within 30 days from the above review of the account. Such decision should be well documented and approved by the majority of the JLF members (minimum of 75 percent of creditors by value and 60 percent of creditors by number);

(iv) In order to achieve the change in ownership, the lenders under the JLF should collectively become the majority shareholder by conversion of their dues from the borrower into equity. However the conversion by JLF lenders of their outstanding debt (principal as well as unpaid interest) into equity instruments shall be subject to the member banks' respective total holdings in shares of the company conforming to the statutory limit;

(v) Post the conversion, all lenders under the JLF must collectively hold 51 percent or more of the equity shares issued by the company;

(vi) The share price for such conversion of debt into equity will be determined as per the method given in this circular of June 8, 2015;

(vii) Henceforth, banks should include necessary covenants in all loan agreements, including restructuring, supported by necessary approvals/authorisations (including special resolution by the shareholders) from the borrower company, as required under extant laws/regulations, to enable invocation of SDR in applicable cases;

(viii) The JLF must approve the SDR conversion package within 90 days from the date of deciding to undertake SDR;

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KYC Policy- OVDs under Simplified Measures

To simplify the Know Your Customer (KYC) Policy for the 'low risk' customers for the limited purpose of proof of address where customers are unable to produce any officially valid document (OVD), the Reserve Bank, on June 11, 2015, advised that the following additional documents are deemed to be OVDs under 'simplified measures':

- a. Utility bill which is not more than two months old of any service provider (electricity, telephone, postpaid mobile phone, piped gas, water bill);
- b. Property or Municipal Tax receipt;
- c. Bank account or Post Office savings bank account statement;
- d. Pension or family pension payment orders (PPOs) issued to retired employees by Government Departments or Public Sector Undertakings, if they contain the address;
- e. Letter of allotment of accommodation from employer issued by State or Central Government departments, statutory or regulatory bodies, public sector undertakings, scheduled commercial banks, financial institutions and listed companies. Similarly, leave and license agreements with such employers allotting official accommodation; and
- f. Documents issued by Government departments of foreign jurisdictions and letter issued by Foreign Embassy or Mission in India. (DBR. AML.BC. No.104/ 14.01.001/ 2014-15 dated June 11, 2015)

Strategic Debt Restructuring Scheme

(Continued from page 1)

(ix) The conversion of debt into equity as approved under the SDR should be completed within a period of 90 days from the date of approval of the SDR package by the JLF. For accounts which have been referred by the JLF to CDR Cell for restructuring, JLF may decide to undertake the SDR either directly or under the CDR Cell;

(x) The invocation of SDR will not be treated as restructuring for the purpose of asset classification and provisioning norms;

(xi) On completion of conversion of debt to equity as approved under SDR, the existing asset classification of the account, as on the reference date, will continue for a period of 18 months from the reference date. Thereafter, the asset classification will be as per the extant IRAC norms, assuming the aforesaid 'stand-still' in asset classification had not been given, except when banks' holding are divested to a new promoter;

(xii) Banks should ensure compliance with the provisions of Banking Regulation Act and JLF should closely monitor the performance of the company and consider appointing suitable professional management to run the affairs of the company;

(xiii) JLF and lenders should divest their holdings in the equity of the company as soon as possible. On divestment of banks' holding in favour of a 'new promoter', the asset classification of the account may be upgraded to 'Standard, subject to the prescribed conditions'. At the time of divestment of their holdings to a 'new promoter', banks may refinance the existing debt of the company considering the changed risk profile of the company without treating the exercise as 'restructuring' subject to banks making provision for any diminution in fair value of the existing debt on account of the refinance.

In addition to conversion of debt into equity under SDR, banks may also convert their debt into equity at the time of restructuring of credit facilities under the extant restructuring guidelines. However, this will require reporting to RBI, DBS, Central Office every month along with the regular DSB Return on Asset Quality and disclosure by banks in the Notes to Accounts in Annual Financial Statements. (DBR. BP.BC.No.101/21.04.132/2014-15 dated June 8, 2015)

Compensation of Non-executive Directors

In order to enable private sector banks to attract and retain professional directors, the Reserve Bank has issued guidelines on compensation for non-executive Directors for implementation by private sector banks, that will reflect market realities and will be within the parameters specified in the Banking Regulation Act, 1949 and the Companies Act, 2013. The broad guidelines are as under:

- The Board of Directors, in consultation with its Remuneration Committee, should formulate and adopt a comprehensive compensation policy for the non-executive Directors (other than the part-time non-executive Chairman).

- The Board may, at its discretion, provide for in the policy, payment of compensation in the form of profit related commission to the non-executive directors (other than the Part-time Chairman), subject to the bank making profits. Such compensation, however, shall not exceed ₹1 million per annum for each director. In addition to the directors' compensation, the bank may pay sitting fees to the non-executive directors and reimburse their expenses for participation in the Board and other meetings.

- As hitherto, banks in private sector would be required to obtain prior approval of the Reserve Bank for granting remuneration to the part-time non-executive Chairman. The compensation policies of banks would be subject to supervisory oversight including review under the Supervisory Review and Evaluation Process (SREP) under Pillar 2 of Basel II framework. Banks are required to make disclosure on remuneration paid to the directors on an annual basis at the minimum, in their Annual Financial Statements. (DBR.No.BC.97/29.67.001/2014-15 dated June 1, 2015)

Hedging of Commodity Price Risk - Creating awareness

With a view to developing strong risk management capabilities to manage agri-commodity price risk, the Reserve Bank advised all scheduled commercial banks (excluding regional rural banks) to encourage hedging by the agri-borrowers by creating awareness among them regarding the utility and benefits of hedging through agri-commodity derivatives. To begin with, banks may encourage large agricultural borrowers, such as, agricultural commodity processors, traders, millers, aggregators, etc., to hedge their commodity price risk. The hedging can be done through agri-commodity derivative products available on recognised exchanges in India. (DBR.No.BP.BC.96 /21.04.157/2014-15 dated May 28, 2015)

Sale of Financial Assets to SC/ RC

The Reserve Bank advised all-India Term Lending and Refinancing Institutions (AIFI) to make certain disclosures in addition to the extant disclosure requirements in the Notes to Accounts in their Annual Financial Statements relating to sale of non-performing assets (NPAs) to Securitisation Companies / Reconstruction Companies: book value of investments in security receipts backed by NPAs sold by the AIFIs/ banks / other financial institutions / non-banking financial companies as underlying. (DBR.No.FID.5/01.02.00/2014-15 dated June 11, 2015)

Cross Holding of Long Term Bonds

On a review, the Reserve Bank allowed all scheduled commercial banks (excluding RRBs) to invest in the long term bonds issued by other banks for financing of infrastructure and affordable housing. In order to prevent double counting of regulatory exemptions allowed, such investments will be subject to prescribed conditions. (DBR.BP.BC. No.98/08.12.014/2014-15 dated June 1, 2015)

Basel III Implementation Assessments of India

The Basel Committee on Banking Supervision (BCBS) under the aegis of the Bank for International Settlements has published, assessment reports on the implementation of the Basel risk-based capital framework and the Liquidity Coverage Ratio (LCR) for India as part of the ongoing Regulatory Consistency Assessment Program (RCAP) for its member jurisdictions.

The assessment has rated the standards adopted by the Reserve Bank (RBI) with regard to risk-based capital requirements as 'Compliant' with the minimum Basel capital standards. Each of the 14 components of the Basel capital framework included in the assessment has been assessed as compliant. The Liquidity Coverage Ratio (LCR) requirements have been assessed as 'Largely Compliant' with the minimum Basel liquidity standards. The two components of the LCR framework, viz. the LCR standard and the LCR disclosure requirements, are assessed as 'largely compliant' and 'compliant' with the Basel standard, respectively. The Reserve Bank believes that the RCAP reports bring in transparency about the national adoption and implementation of Basel standards and promote an international level playing field.

DEAF- Form I & III

The Reserve Bank advised all Scheduled Commercial Banks (including RRBs) and LABs / Urban Co-operative Banks / State Co-operative Banks / District Central Co-operative Banks the new "Form I & II" by clubbing Form I and Form II together for submitting returns to the Reserve Bank in connection with the Depositor Education and Awareness Fund Scheme, 2014. The periodicity, the last date of submission and all other instructions will remain the same as applicable to the existing Form II. (DBR.No. DEAF Cell. BC.105/30.01.002/2014-15 dated June 18, 2015)

Reporting on On-site, Off-site and Mobile ATMs

On a review, the Reserve Bank has dispensed with the reporting requirement by banks to the concerned regional offices of Department of Banking Supervision and Department of Banking Regulation, CO, Mumbai (in respect of ATMs in Maharashtra and Goa). However, the reporting requirement on ATMs to DSIM in the prescribed proforma will continue. These instructions should not be deemed as diluting in any way the instructions issued by the Reserve Bank of India on taking of prior permission for opening of ATMs by banks to which general prior permission has not been granted. (DBR.No.BAPD.BC.102/22.01.001/2014-15 dated June 11, 2015)

Second Bi-monthly Monetary Policy Statement, 2015-16

On the basis of an assessment of the current and evolving macro economic situation, the Reserve Bank, on June 2, 2015:

- Reduced the policy repo rate under the liquidity adjustment facility (LAF) by 25 basis points from 7.5 per cent to 7.25 per cent;
- Kept the cash reserve ratio (CRR) of scheduled banks unchanged at 4.0 per cent of net demand and time liabilities (NDTL);
- Continued to provide liquidity under overnight repos at 0.25 per cent of bank-wise NDTL at the LAF repo rate and liquidity under 14-day term repos as well as longer term repos of up to 0.75

Banker to the Government

Final Guidelines for 6-year and 13-year Interest Rate Futures

The Reserve Bank, on June 12, 2015, released the final guidelines for introduction of 6-year and 13-year cash settled Interest Rate Futures (IRF) on Government of India Securities with residual maturity of 4-8 years and 11-15 years, respectively. It also expanded the residual maturity for the existing 10-year cash settled IRF from 9-11 years to 8-11 years. This would provide market participants greater choice and flexibility to hedge their interest rate risk across different tenors.

The 6-Year, existing 10-Year and 13-year cash settled Interest Rate Futures contracts shall have two options as under:

Option A:

The underlying shall be a coupon bearing Government of India security of face value ₹100 and residual maturity –

- between 4 and 8 years for 6-year cash settled IRF;
- between 8 and 11 years for the existing 10-year cash settled IRF; and
- between 11 and 15 years for the 13-year cash settled IRF, on the expiry of futures contract.

Option B:

The underlying shall be coupon bearing notional 10-year Government of India security with a face value of ₹100. For each contract, there shall be basket of Government of India securities, with residual maturity- between 4 and 8 years for 6-year cash settled IRF; between 8 and 11 years for the existing 10-year cash settled IRF and between 11 and 15 years for the 13-year cash settled IRF, on the day of expiry of futures contract, with appropriate weight assigned to each security in the basket.

Other requirements for cash settled 6-year, 10-year and 13-year Interest Rate Futures contracts shall be:

Option A:

- The underlying security shall be decided by stock exchanges in consultation with the Fixed Income Money Market and Derivatives Association (FIMMDA).
- The contract shall be cash-settled in Indian rupees.
- The final settlement price shall be arrived at by calculating the volume weighted average price of the underlying security based on prices during the last two hours of the trading on Negotiated

per cent of NDTL of the banking system through auctions; and

- Continue with overnight/term variable rate repos and reverse repos to smooth liquidity.

Consequently, the reverse repo rate under the LAF stands adjusted to 6.25 per cent, and the marginal standing facility (MSF) rate and the Bank Rate to 8.25 per cent.

The third bi-monthly monetary policy statement will be announced on August 4, 2015.

Dealing System-Order Matching (NDS-OM) system. If less than five trades are executed in the underlying security during the last two hours of trading, then FIMMDA price shall be used for final settlement.

Option B:

✓ The underlying security shall have coupon with semi-annual compounding.

✓ Exchanges shall disclose criteria for including securities in the basket and determining their weights such as trading volumes in cash market, minimum outstanding etc.

✓ The contract shall be cash-settled in Indian rupees.

The final settlement price shall be based on average settlement yield which shall be volume weighted average of the yields of securities in the underlying basket. For each security in the basket, yield shall be calculated by determining weighted average yield of the security based on last two hours of the trading in Negotiated Dealing System-order matching (NDS-OM) system. If less than five trades are executed in the security during the last two hours of trading, then Fixed Income Money Market and Derivatives Association of India (FIMMDA) price shall be used for determining the yields of individual securities in the basket.

Background

Cash settled IRF on 10-Year Government of India (GoI) Security was launched on the stock exchanges in January 2014 and has received an encouraging response. To provide market participants with greater flexibility to hedge their interest rate risk, it was announced in the Sixth Bi-monthly Monetary Policy Statement, 2014-15 to introduce cash settled IRF contracts on 5-7-year and 13-15 year Government of India Securities. The product specifications for the new 6-year and 13-year contracts as well as the existing 10-year contract have been finalised in consultation with Securities and Exchange Board of India and other stakeholders. (Notification No. FMRD.DIRD.09/ ED (CS) - 2015 dated June 12, 2015)

Acknowledgement to Pensioners for Life Certificates

The Reserve Bank, on May 7, 2015, advised all agency banks handling government pension payments to issue a duly signed acknowledgement to pensioners on receipt of the life certificate submitted in physical form. Banks may also consider entering the same in their CBS immediately on receipt and issuing a system generated receipt to the pensioners. Agency banks may also promote the use of digital life certificates among pensioners, which would eliminate the need for physical presence at branches and issue of acknowledgement. The Government of India has also launched from September, 2014 a scheme for introduction of Aadhaar based digital life certificates known as Jeevan Pramaan. (DGBA.GAD No.H-5013/45.01.001/2014-15 dated May 7, 2015)

Foreign Exchange Management

LRS For Residents - Increase in the Limit and Rationalisation

The Reserve Bank has permitted all banks authorised to deal in foreign exchange/ all authorised money changers (AMCs) / full-fledged money changers (FFMCs) to allow remittances by a resident individual up to USD 250,000 per financial year for any permitted current or capital account transaction or a combination of both. If an individual has already remitted any amount under the Liberalised Remittance Scheme (LRS), then the applicable limit for such an individual would be reduced from the present limit of USD 250,000

for the financial year by the amount already remitted. The permissible capital account transactions by an individual under LRS include:

- i) opening of foreign currency account abroad with a bank;
- ii) purchase of property abroad;
- iii) making investments abroad;
- iv) setting up Wholly owned subsidiaries and Joint Ventures abroad;
- v) extending loans including loans in Indian Rupees to Non-resident Indians (NRIs) who are relatives.

Further, to facilitate ease of transactions, all the facilities (including private/business visits) for release of exchange/remittances for current account transactions available to resident individuals, shall now be subsumed under the overall limit of USD 250,000. However, for emigration, expenses in connection with medical treatment abroad and studies abroad, individuals may avail of exchange facility for an amount in excess of the overall limit prescribed under the LRS, if it is so required by a country of emigration, medical institute offering treatment or the university, respectively. Gift in Indian Rupees by resident individuals to NRI relatives shall also be subsumed under the LRS limit.

As hitherto, the Scheme cannot be made use for making remittances for any prohibited or illegal activities such as margin trading, lottery, etc.

Remittance Procedure

While allowing the facility to resident individuals, authorised persons, including AD Category II and FFMCs, are required to comply with prescribed conditions including "Know Your Customer" guidelines and the Anti-Money Laundering Rules. Authorised dealers are required to furnish on a monthly basis information on the number of applicants and total amount remitted under LRS to Reserve Bank through Online Return Filing System (ORFS).

Facilities for Persons other than Individuals

Persons other than individuals can make remittances for

- i) Donations for educational institutions;
- ii) Commissions to agents abroad for sale of residential flats/commercial plots in India;
- iii) Remittances for consultancy services and
- iv) Remittances for reimbursement of pre-incorporation expenses

within the limit and conditions laid down. Such persons shall submit to the concerned AD branch a declaration to this effect. (A.P. (DIR Series) Circular No. 106 dated June 1, 2015)

Chit Funds Subscription by NRI on Non-repatriation Basis

The Reserve Bank has permitted Non-Resident Indians (NRIs) to subscribe to the chit funds, without limit, on non-repatriation basis subject to the following conditions:

(i) The Registrar of Chits or an officer authorised by the State Government in accordance with the provisions of the Chit Fund Act in consultation with the State Government concerned, may permit any chit fund to accept subscription from Non-Resident Indians on non-repatriation basis;

(ii) The subscription to the chit funds shall be brought in through normal banking channel, including through an account maintained with a bank in India. (A. P. (DIR Series) Circular No.107 dated June 11, 2015)