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Monetary and Credit Information Review

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Banking Regulation

Resolution of Stressed Assets – Revised Framework

In view of the enactment of the Insolvency and Bankruptcy Code, 2016 (IBC), the Reserve Bank on February 12, 2018 substituted the existing guidelines with a harmonised and simplified generic framework for resolution of stressed assets as under:

Early identification and reporting of stress

Lenders shall identify incipient stress in loan accounts, immediately on default, by classifying stressed assets as special mention accounts (SMA) as per the following categories:

SMA Sub-categories	Basis for classification–Principal or interest payment or any other amount wholly or partly overdue between
SMA-0	1-30 days
SMA-1	31-60 days
SMA-2	61-90 days

Lenders shall report credit information, including classification of an account as SMA to Central Repository of Information on Large Credits (CRILC) on all borrower entities having aggregate exposure of ₹50 million and above with them. The CRILC - Main Report will be required to be submitted on a monthly basis effective April 1, 2018. In addition, the lenders shall report all borrower entities in default (with aggregate exposure of ₹50 million and above), to CRILC, on a weekly basis, at the close of business on every Friday, or the preceding working day if Friday happens to be a holiday, with effect from the week ending February 23, 2018.

Implementation of RP

All lenders must put in place board-approved policies for resolution of stressed assets under this framework, including the timelines for resolution. As soon as there is a default in the borrower entity's account with any lender, all lenders – singly or jointly – shall initiate steps to cure the default. The resolution plan (RP) may involve any actions/plans/reorganisation including, but not limited to, regularisation of the account by payment of all over dues by the borrower entity, sale of the exposures to other entities / investors, change in ownership, or restructuring. The resolution plan shall be clearly documented by all the lenders (even if there is no change in any terms and conditions).

Implementation conditions for RP

A resolution plan in respect of borrower entities to whom the lenders continue to have credit exposure, shall be deemed to be 'implemented' only if the following conditions are met:

(a) the borrower entity is no longer in default with any of the lenders;

(b) if the resolution involves restructuring; then

(i) all related documentation, including execution of necessary agreements between lenders and borrower/creation of security charge/perfection of securities are completed by all lenders; and

(ii) the new capital structure and/or changes in the terms of conditions of the existing loans get duly reflected in the books of all the lenders and the borrower.

Additionally, RPs involving restructuring/change in ownership in respect of 'large' accounts (that is, accounts where the aggregate exposure of lenders is ₹1 billion and above), shall require independent credit evaluation (ICE) of the residual debt by credit rating agencies (CRAs) specifically authorised by the Reserve Bank for this purpose. While accounts with aggregate exposure of ₹5 billion and above shall require two such ICEs, others shall require one ICE. Only such RPs which receive a credit opinion of RP4 or better for the residual debt from one or two CRAs, as the case may be, shall be considered for implementation. Further, ICEs shall be subject to select conditions.

Timelines for large accounts to be referred under IBC

In respect of accounts with aggregate exposure of the lenders at ₹20 billion and above, on or after March 1, 2018 ('reference date'), including accounts where resolution may have been initiated under any of the existing schemes as well as accounts classified as restructured standard assets which are currently in respective specified periods (as per the previous guidelines), RP shall be implemented as per the following timelines:

(i) If in default as on the reference date, then 180 days from the reference date.

(ii) If in default after the reference date, then 180 days from the date of first such default.

If a resolution plan in respect of such large accounts is not implemented as per the timelines specified, lenders shall file insolvency application, singly or jointly, under the Insolvency and Bankruptcy Code (IBC) within 15 days from the expiry of the said timeline.

For other accounts with aggregate exposure of the lenders below ₹20 billion and, at or above ₹1 billion, the Reserve Bank intends to announce, over a two-year period, reference dates for implementing the RP to ensure calibrated, time-bound resolution of all such accounts in default.

The provisioning in respect of exposure to borrower entities against whom insolvency applications are filed under the IBC shall be as per their asset classification in terms of the Master Circular on Prudential norms on Income Recognition, Asset Classification and Provisioning, as amended from time to time.

Supervisory Review

Any failure on the part of lenders in meeting the prescribed timelines or any actions by lenders with an intent to conceal the actual status of accounts or evergreen the stressed accounts, will be subjected to stringent supervisory/enforcement actions as deemed appropriate by the Reserve Bank, including, but not limited to, higher provisioning on such accounts and monetary penalties. Banks shall make appropriate disclosures in their financial statements, under 'Notes on Accounts', relating to resolution plans implemented. (https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11218&Mode=0)

Relief for MSME Borrowers registered under GST

As a measure of support to small entities during the transition phase to formalisation of business environment through registration under GST, the Reserve Bank on February 7, 2018 decided that the exposure of banks and NBFCs to a borrower classified as micro, small and medium enterprise under the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, shall continue to be classified as a standard asset in the books of banks and Non-Banking Financial Companies (NBFCs) subject to the following conditions:

- The borrower is registered under the Goods and Services Tax (GST) regime as on January 31, 2018.
- The aggregate exposure, including non-fund based facilities, of banks and NBFCs, to the borrower does not exceed ₹ 250 million as on January 31, 2018.
- The borrower's account was standard as on August 31, 2017.
- The overdue amount from the borrower as on September 1, 2017 and payments from the borrower due between September 1, 2017 and January 31, 2018 are paid not later than 180 days from their respective original due dates.
- A provision of 5 per cent shall be made by the banks/NBFCs against the exposures not classified as NPA in terms of this circular. The provision in respect of the account may be reversed as and when no amount is overdue beyond the 90/120 day norm, as the case may be.
- The additional time is being provided for the purpose of asset classification only and not for income recognition, i.e., if the interest from the borrower is overdue for more than 90/120 days, the same shall not be recognised on accrual basis. (https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11216&Mode=0)

Liquidity Measures for March 2018

As stated in the Monetary Policy, while the system liquidity is currently in a surplus mode, it is moving steadily towards neutrality. With a view to address any additional demand for liquidity on account of increase in currency in circulation and advance tax payments by corporates and to provide flexibility to the banking system in its liquidity management towards March-end, the Reserve Bank on February 15, 2018 informed that it stands ready to inject adequate additional liquidity using a combination of appropriate instruments, while continuing with its normal Liquidity Adjustment Facility (LAF) operations.

As a special case, standalone primary dealers will be allowed to participate along with other eligible participants in the last regular term repo auction of the current financial year, to be conducted on March 28, 2018, within the usual notified amount. The notified amount shall be as announced in the fortnightly press release for Term Repo Auctions under the Liquidity Adjustment Facility. (https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=43151)

Banking Supervision

Constitution of an Expert Committee

The Reserve Bank of India (RBI) on February 20, 2018 informed that in view of large divergences observed in asset classification and provisioning in the credit portfolio of banks as well as the rising incidence of frauds in the Indian banking system, it decided to constitute an Expert Committee under the chairmanship of Shri Y. H. Malegam, a former member of the Central Board of Directors of RBI, to look into the reasons for high divergence observed in asset classification and provisioning by banks vis-à-vis the Reserve Bank's supervisory assessment, and the steps needed to prevent it; factors leading to an increasing incidence of frauds in banks and the measures (including IT interventions) needed to curb and prevent it; and the role and effectiveness of various types of audits conducted in banks in mitigating the incidence of such divergence and frauds.

The members of the committee are: Shri Bharat Doshi, Member, Central Board of Directors, RBI; Shri S. Raman, former Chairman and Managing Director, Canara Bank and former Whole-Time Member, SEBI; and Shri Nandkumar Saravade, Chief Executive Officer, Reserve Bank Information Technology Pvt Ltd (ReBIT). Shri A. K. Misra, Executive Director, RBI will be the Member-Secretary of the committee. (https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=43181)

Monetary Policy

Sixth Bi-monthly Monetary Policy Statement, 2017-18

Resolution of the Monetary Policy Committee

The Monetary Policy Committee (MPC) of the Reserve Bank of India, at its meeting held on February 7, 2018 in Central Office, Mumbai, decided to keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 6.0 per cent on the basis of an assessment of the current and evolving macroeconomic situation. Consequently, the reverse repo rate under the LAF remains at 5.75 per cent, and the marginal standing facility (MSF) rate and the Bank Rate at 6.25 per cent.

The decision of the MPC is consistent with the neutral stance of monetary policy 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.(https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=43078)

Statement on Developmental and Regulatory Policies

Removal of Credit Caps on MSME (Services) under Priority Sector

All bank loans to Micro, Small and Medium Enterprises (MSMEs), engaged in providing or rendering of services as defined in terms of investment in equipment under Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, shall qualify under priority sector without any credit caps.

Applicability of sub-targets of Small and Marginal Farmers and Micro Enterprises

It has been decided that the sub-target of 8 percent of Adjusted Net Bank Credit (ANBC) or Credit Equivalent Amount of Off-Balance Sheet Exposure (CEOBE), whichever is higher, will be made applicable for lending to the small and marginal farmers for foreign banks with 20 branches and above from financial year 2018-19. Further, the sub-target for bank lending to the micro enterprises in the country of 7.50 per cent of ANBC or CEOBE, whichever is higher, will also be made applicable for foreign banks with 20 branches and above from financial year 2018-19.

Harmonising Benchmark Rate Methodology

Keeping in view that a large proportion of bank loans continue to be linked to the Base Rate despite the Reserve Bank highlighting this concern in earlier monetary policy statements and Marginal Cost of Funds based Lending Rates (MCLR) is more sensitive to policy rate signals, the Reserve Bank decided to harmonise the methodology of determining benchmark rates by linking the Base Rate to the MCLR with effect from April 1, 2018.

Comprehensive Repo Directions

With a view to harmonising regulations across different types of collateral and also to encourage wider participation, especially for corporate debt repos, the repo directions are proposed to be streamlined and simplified.

Ease of access to non-residents for forex hedging onshore

With a view to ease the access of non-residents to the onshore market for their hedging requirements, including for Masala bond exposures, it is proposed to allow them to dynamically hedge their currency and interest rate exposures onshore using any of the permitted instruments. In order to encourage further participation in exchange traded currency derivatives, it is proposed to merge the position limits across all foreign currency-INR pairs and provide a single limit of USD 100 million per user (both resident and non-resident) across all exchange traded currency derivatives, in all exchanges combined.

Taking over of G-Sec benchmark and forex reference rate by FBIL

The Reserve Bank proposed that (i) Financial Benchmarks India Pvt., Ltd (FBIL) would assume the responsibility for standardising the valuation of Government securities (issued by both the Centre and States) currently being done by FIMMDA; and, (ii) FBIL would also assume the responsibility for computation and dissemination of the daily "Reference Rate" for Spot USD/INR and other major currencies against the Rupee, which is currently being done by the Reserve Bank.

Ombudsman Scheme for customers of Non-Banking Finance Companies

With a view to providing customers of Non-Banking Finance Companies (NBFCs) with a cost-free and expeditious grievance redress mechanism, the Reserve Bank decided to introduce an Ombudsman Scheme for NBFCs. The scheme would cover all deposit taking NBFCs and those with customer interface having asset-size of Rupees One Billion and above.

Review of the Currency Management System

As announced in the fourth Bi-Monthly Monetary Policy Statement on October 4, 2016, the Reserve Bank had constituted two high level inter-agency committees to review the entire gamut of currency management, including security of movement of treasure. The Reserve Bank, in consultation with the Government, had also arranged an audit by an external group, of four currency presses, two of which are run by the Reserve Bank subsidiary and two by a unit of Government, so as to standardise the note printing processes, procurement of raw materials, quality assurance processes, security, etc. A Task Force is being formed to implement the recommendations of the above committees within nine months.

Review of Currency Distribution and Exchange Scheme (CDES)

With a view to promote a less cash economy, the Reserve Bank decided to discontinue going forward the incentives for installation of Cash Recycler Machines (CRMs) and Automated Teller Machines (ATMs). (https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=43079)

Non – Banking Regulation

Ombudsman Scheme for NBFC

The Reserve Bank on February 23, 2018 advised select Non-Banking Financial Companies (NBFCs), which (a) are authorised to accept deposits; or (b) have customer interface, with assets size of one billion rupees or above, as on the date of the audited balance sheet of the previous financial year, or of any such asset size as the RBI may prescribe, will come within the ambit of the Ombudsman Scheme for Non-Banking Financial Companies, 2018 and should comply with the provisions of the Scheme.

The Non-Banking Financial Company - Infrastructure Finance Company (NBFC-IFC), Core Investment Company (CIC), Infrastructure Debt Fund - Non-Banking Financial Company (IDF-NBFC) and an NBFC under liquidation, are excluded from the ambit of the Scheme.

The Scheme will be operationalised for all deposit accepting NBFCs and based on the experience gained, the Scheme would be extended to include the remaining identified categories of NBFCs. It is initially being introduced at the four metro centers viz., Chennai, Kolkata, Mumbai and New Delhi for handling complaints from the respective zones, so as to cover the entire country. (https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11220&Mode=0)

Appointment of the N O/P N O

The Reserve Bank advised Non-Banking Financial Companies (NBFCs) covered under the Ombudsman Scheme for Non-Banking Financial Companies 2018, to ensure that a suitable mechanism exists for receiving and addressing complaints from their customers with specific emphasis on resolving such complaints expeditiously and in a fair manner. The NBFCs covered by the Scheme shall appoint Nodal Officers (NOs) at their Head/Registered/Regional/Zonal Offices and inform all the Offices of the Ombudsman about the same. Wherever more than one zone/region of a NBFC is falling within the jurisdiction of an Ombudsman, one of the NOs shall be designated as the 'Principal Nodal Officer' (PNO) for such zones or regions. The PNO/NO would be responsible for representing the NBFC before the Ombudsman and the Appellate Authority under the scheme.

Covered NBFCs shall display prominently, adequate information of the PNOs/NOs/GROs and the name and contact details of the Ombudsman, who can be approached by the customer. Salient features of the scheme shall be prominently displayed at all the offices and branches and on the web-site of covered NBFCs. (https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11221&Mode=0)

Foreign Exchange Management

Risk Management: Revised Guidelines

The Reserve Bank on February 26, 2018 decided to permit persons resident in India and Foreign Portfolio Investor (FPI) to take positions (long or short), without having to establish existence of underlying exposure, up to a single limit of USD 100 million equivalent across all currency pairs involving INR, put together, and combined across all exchanges.

The onus of complying with the provisions of this circular rests with the participant in the Exchange Traded Currency Derivatives (ETCD) market and in case of any contravention the participant shall be liable to any action that may be warranted. These limits shall also be monitored by the exchanges, and breaches, if any, may be reported to the Reserve Bank of India. (https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11222&Mode=0)

Currency Management

Acceptance of Coins by Weighment

The Reserve Bank on February 15, 2018 advised all banks to preferably accept coins, particularly in the denominations of ₹1 and 2, by weighment. However, accepting coins packed in polythene sachets of 100 each would perhaps be more convenient for the cashiers as well as the customers. Such polythene sachets may be kept at the counters and made available to the customers. A notice to this effect may be displayed suitably inside as also outside the branch premises for information of the public.

In order to obviate the problems of storage of coins at the branches, coins may be remitted to the currency chests as per the existing procedure. The stock thus built in the currency chest should be utilised for the purpose of re-circulation. In case the stocks of these coins reach beyond the holding capacity of the currency chest for lack of demand, the Issue Department of the Circle may be approached for remittance of coins.

The controlling offices may be advised to pay surprise visits to the branches and report the position of compliance in this regard to the Head Office. The reports may be reviewed at the head office and prompt remedial action taken, wherever necessary. Any non-compliance in this regard shall be viewed as violation of instructions issued by the Reserve Bank and action including penal measures as applicable from time to time, may be initiated. (https://rbi.org.in/Scripts/NotificationUser.aspx?Id=11219&Mode=0)

Levy of Penal Interest – Delayed Reporting

The Reserve Bank on February 9, 2018 decided that penal interest at the prevailing rate for delayed reporting of the instances where the currency chest had reported "net deposit" may not be charged. However, in order to ensure proper discipline in reporting currency chest transactions, a flat penalty of ₹50,000 may be levied on the currency chests for delayed reporting as in the case of wrong reporting of soiled note remittances to the Reserve Bank / diversions shown as 'Withdrawal'. (https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11217&Mode=0)

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