



Monetary and Credit Information Review

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Currency Management

RBI (Note Refund) Rules amended

The Reserve Bank on September 7, 2018 amended its Note Refund Rules, 2009 to enable the public to exchange mutilated notes in Mahatma Gandhi (New) series which are smaller in size compared to the earlier series, at bank branches and Reserve Bank offices. The Reserve Bank of India (Note Refund) Amendment Rules, 2018 have since been notified in the Gazette of India on September 6, 2018. These rules have come into force with immediate effect.

Major Changes

The value of a mutilated note of less than ₹50 denomination may be refunded in full if the undivided area of the single largest piece of the note, is as shown in the table below:-

Denomination	Length (cm)	Width (cm)	Area (in cm square)	Minimum area (in cm square) required for payment of full value
1	9.7	6.3	61.11	31
2	10.7	6.3	67.41	34
5	11.7	6.3	73.71	37
10	13.7	6.3	86.31	44
10- New MG series	12.3	6.3	77.49	39
20	14.7	6.3	92.61	47
20- New MG series	12.9	6.3	81.27	41

If the claim of mutilated notes of ₹50 and above

Banking Regulation

Basel III Framework on Liquidity Standards

The Reserve Bank on September 27, 2018 permitted banks with effect from October 1, 2018, to reckon government securities held by them up to another two per cent of their Net Demand and Time Liabilities (NDTL), under the Facility to Avail Liquidity for Liquidity Coverage Ratio (FALLCR) within the mandatory Statutory Liquidity Ratio (SLR) requirement, as the Level 1 High Quality Liquid Assets (HQLAs) for the purpose of computing their Liquidity Coverage Ratio (LCR). Hence, the carve-out from SLR, under FALLCR will now be 13 per cent, taking the

denominations consist of a note composed of two pieces of the same note and the two pieces, individually have an area equal to or more than 40 per cent of the total area of the note in that denomination, then the claim may be refunded for full value of the note.

The value of a mutilated note of equal to or more than ₹50 denomination may be refunded in full or half, as the case may be, if the minimum undivided area of the single largest piece of the note is as specified in the table below:-

Denomination	Length (cm)	Width (cm)	Area (in cm square)	Minimum area (in cm square) required for payment of full value	Minimum area (in cm square) required for payment of half value
50	14.7	7.3	107.31	86	43
50 - New MG series	13.5	6.6	89.10	72	36
100	15.7	7.3	114.61	92	46
100 - New MG series	14.2	6.6	93.72	75	38
200	14.6	6.6	96.36	78	39
500	15.0	6.6	99.00	80	40
2000	16.6	6.6	109.56	88	44

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total carve out from SLR available to banks to 15 per cent of their NDTL.

At present, the assets allowed as the Level 1 HQLAs for the purpose of computing the LCR of banks, among others, include (a) government securities in excess of the minimum SLR requirement and, (b) within the mandatory SLR requirement, (i) government securities to the extent allowed by the Reserve Bank under Marginal Standing Facility (MSF) [presently two per cent of the bank's NDTL] and (ii) under FALLCR (at present, 11 per cent of the bank's NDTL).

For the purpose of LCR, banks shall continue to value such government securities reckoned as HQLA at an amount not greater than their current market value (irrespective of the category under which the security is held, that is, HTM, AFS or HFT).

Internal Ombudsman Scheme 2018 for SCBs

As per the Internal Ombudsman Scheme 2018, all scheduled commercial banks in India having more than 10 banking outlets (excluding regional rural banks), are required to appoint Internal Ombudsman (IO) in their banks. The IO shall, inter alia, examine customer complaints which are in the nature of deficiency in service on the part of the bank, that are partly or wholly rejected by the bank. As the banks shall internally escalate all complaints, which are not fully redressed to their respective IOs before conveying the final decision to the complainant, the customers of banks need not approach the IO directly. The implementation of IO Scheme, 2018 will be monitored by the bank's internal audit mechanism apart from regulatory oversight by the Reserve Bank.

As a part of this customer-centric approach, to enhance the independence of the Internal Ombudsman while simultaneously strengthening the monitoring system over functioning of the IO mechanism, the Reserve Bank on September 3, 2018 issued revised directions under Section 35 A of the Banking Regulation Act, 1949 in the form of 'Internal Ombudsman Scheme, 2018'. The Scheme covers, inter-alia, appointment/tenure, roles and responsibilities, procedural guidelines and oversight mechanism for the IO.

The Reserve Bank had, in May 2015, advised all public-sector and select private and foreign banks to appoint IO as an independent authority to review complaints that were partially or wholly rejected by the respective banks. The IO mechanism was set up with a view to strengthen the internal grievance redressal system of banks and to ensure that the complaints of the customers are redressed at the level of the bank itself by an authority placed at the highest level of bank's grievance redressal mechanism so as to minimise the need for the customers to approach other fora for redressal. (https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=44900)

Financial Inclusion and Development

Co-origination of Loans by Banks and NBFCs

The Reserve Bank on September 21, 2018 advised all scheduled commercial banks (excluding regional rural banks and small finance banks) to engage with systemically important non-deposit taking non-banking financial company (NBFC-ND-SIs) (hereinafter referred to as NBFC) to co-originate loans for the creation of priority sector assets. The arrangement should entail a joint contribution of credit at the facility level, by both lenders. It should also involve sharing of risks and rewards between the bank and the NBFC for ensuring appropriate alignment of respective business objectives, as per the

mutually decided agreement between the bank and the NBFC, covering the essential features as under:-

- The bank can claim priority sector status in respect of its share of credit while engaging in the co-origination arrangement. However, the priority sector assets on the bank's books should at all times be without recourse to the NBFC. Further, the loans extended by foreign banks under the co-origination framework shall be restricted only to loans qualifying as priority sector assets.
- Based on the respective interest rates and proportion of risk sharing, a single blended interest rate should be offered to the ultimate borrower in case of fixed rate loans. In the scenario of floating interest rates, a weighted average of the benchmark interest rates in proportion to the respective loan contribution should be offered. The interest rate charged by the bank for its portion of credit shall be subject to applicable directions on interest rates on advances. Further, the NBFC-MFIs (Non-Banking Financial Company - Micro Finance Institutions) which are categorised as NBFC-ND-SIs, are also required to abide by the pricing of credit and other applicable guidelines for loans covered under "Qualifying Assets" regarding their contribution towards the co-originated loan. It is envisaged that the benefit of low-cost funds from banks and lower cost of operations of NBFC would be passed on to the ultimate beneficiary through the blended rate/weighted average rate. In this regard, banks/NBFCs shall provide all the information like loan details including interest rate and other charges, details of risk-sharing arrangement, and other details, as and when called for by the Reserve Bank.
- While engaging in co-origination arrangements, inter-alia, the bank/NBFC is required to adhere to extant guidelines on outsourcing of financial services. Accordingly, though the NBFC is expected to source loans as per the mutually agreed parameters between the bank and the NBFC, the bank shall not outsource its part of credit sanction component to the NBFC.
- With regard to grievance redressal, any complaint registered by a borrower with the NBFC/bank shall also be shared with the bank/NBFC; in case the complaint is not resolved within 30 days, the borrower would have the option to escalate the same with the concerned Banking Ombudsman/Ombudsman for NBFCs.
- The bank/NBFC shall formulate a Board approved policy for entering into a co-origination agreement with the NBFC/bank. The loans under the co-origination agreement shall be subjected to periodic verification by bank's/NBFC's internal auditors to ensure adherence to its internal guidelines, terms of the agreement and extant regulatory requirements.

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Speech**Preventive Vigilance – The Key Tool of Good Governance at PSUs: Governor**

Dr Urjit R. Patel, Governor on September 20, 2018 delivered a speech at the Central Vigilance Commission, New Delhi highlighting the importance of vigilance for the public sector institutions and especially underscored the key role that preventive vigilance plays in keeping the system robust and reliable.

Quoting from Pubilius Syrus, the Governor, in his speech, emphasised the need of being vigilant and defined vigilance as “action or state of keeping careful watch for possible danger or difficulties.” It takes several forms, which are often classified as:

- Preventive vigilance, which is aimed at reducing the occurrence of a lapse (violation of a law, a norm, or, broadly speaking, a governance requirement);
- Detective vigilance, which is aimed at identifying and verifying the occurrence of a lapse; and finally,
- Punitive vigilance, which is aimed at deterring the occurrence of a lapse

The Governor, in his speech, referred to the modern economic theory of corruption and how to prevent it that emanates largely from Gary Becker’s insightful and seminal pieces on Crime and Punishment during 1968-1974. Along the lines of Gary Becker’s seminal analysis, he also gave key insights for understanding vigilance.

What vigilance is likely to work the best in a public sector institution?

Punitive vigilance is difficult in a public sector institution for several reasons. The rewards are low to start with, thereby limiting the possibility of downward revisions. Given this constraint, disciplinary actions that limit the chances of career progression are often the preferred punishment. However, this has the misfortune of demotivating employees beyond the point of their career when punitive vigilance action is undertaken. This could, in principle, be dealt with a “golden handshake”; however, the insurance that public sector jobs offer is often a key attractive feature of these jobs given the lack of significant upside financial rewards. While there are ways to fine-tune pecuniary incentives and career-based rewards for greater effectiveness even within these constraints, it is fair to conclude that their “bite” is not as strong as in the private sector.

Detection does not lead to punitive outcomes (except perhaps in extreme or egregious cases and over time) so that investment in detective vigilance does not guarantee the desired reduction in the incidence of lapses, even though it might help in some cases arrest the slide and contain with remedial measures.

In such a scenario, preventive vigilance takes center stage and becomes a key effective tool of governance in a public sector institution. When lapses can arise due to background noise outside of the employee control (which is often the case in public sector due to the complexity of the interaction with a multitude of other public sector entities),

punitive vigilance becomes even less attractive due to further demotivation that it might induce; in turn, so does detective vigilance. In other words, while not taking away from the need to engage in some detective and punitive vigilance, preventive vigilance is conceptually likely to be the most effective governance mechanism at public sector institutions

Preventive vigilance measures at the RBI

At the individual level, instructions are in place requiring an officer to obtain prior permission for certain transactions (such as, acquisition of immovable property and taking a loan from a financial institution); reporting of certain transactions (acquisition of movable assets above a monetary limit and employment of family members in financial institutions); and upfront disclosure when the employee has a personal interest in any official transaction which she is dealing with.

At the organisational level, the preventive vigilance measures in place include identification of sensitive posts, surprise visits by senior officers to vigilance sensitive areas, incorporating vigilance related sessions in the Human Resource (HR) related training programmes at the Reserve Bank’s training establishments, sensitising new recruits on various aspects of vigilance and proper conduct, periodical rotation of staff, well laid down recruitment procedures and procurement policies, close monitoring through CCTV of sensitive areas in the cash department, institution of an effective grievance redressal machinery for the staff and persons who have official interaction with the Bank, and others.

As part of these preventive vigilance measures at the organisational level,

- The Central Vigilance Cell brought out a Compendium of instructions on tenders and other vigilance matters for the benefit of the staff. The Premises Department of the Reserve Bank also has a manual for all procurement. The Cell, during the course of the Vigilance Awareness Week 2017, launched a separate site on our intranet site (called the “EKP”) where all vigilance related information is available in one place.
- In March 2017, the Cell organised a training programme at the College of Agricultural Banking (CAB), Pune, wherein the Chief Technical Examiner of the Commission addressed the officers of the Reserve Bank dealing with procurement activities and provided them with valuable tips on addressing vigilance issues that arise during the process of procurement.
- Another training programme for the senior officers of the Reserve Bank was organised in September 2017 at the CBI Academy in Ghaziabad to sensitise officers on the investigative aspects of vigilance.
- A workshop on ‘Principles of procurement and related case studies’ was recently conducted at Mumbai for the

benefit of officers dealing with procurement. Further, a video conference was held to enhance awareness and to review the status of implementation of e-tendering.

An important feature of preventive vigilance at the Reserve Bank is internal governance, that is, the involvement of employees themselves for disciplining each other. For instance, as a step towards further strengthening preventive vigilance in the area of procurement, the Reserve Bank has introduced the concept of "Integrity Pact" (IP) for large value procurement (exceeding ₹5 crore) and the pact is overseen by an Independent External Monitor (IEM) appointed by the Reserve Bank with the concurrence of the Commission. The Integrity Pact (IP) is an agreement between the prospective bidder (vendor) and the buyer not to resort to any corrupt practices in any stage of the contract. The Pact between the vendor and the buyer involves their primarily agreeing to refrain from bribery, collusion, etc., during the entire process of the contract. The Independent External Monitor independently reviews whether and to what extent parties to the Pact have complied with their obligations under the Pact.

In case of a suspicion, the IEMs examine all complaints received for breach of Pact and furnish their views to the Chief Executive of the organisation or directly forward the findings to the CVO and the Commission. Several other measures are also aimed at instilling strong internal governance. To ease lodging of vigilance related complaints, the name, address, telephone/fax number and e-mail address of the CVO is displayed on the website of the Reserve Bank. The Cell has also put in place a whistle-blower policy for the Reserve Bank so that instances of corruption can be exposed by an employee without fear of retribution, or without the complainant's identity being disclosed.

Finally, with a view to promoting transparency in the functioning and restricting the ad-hoc exercise of powers, the Reserve Bank has taken additional measures, such as:

- Providing substantial disclosure on the Reserve Bank's website regarding its functioning; the procedures followed in its decision-making; and the timeframe for granting approvals and permissions.
- Departments that have a public interface, are required to display a Citizen's Charter, which indicates time schedules for diverse activities; for deficiency in service, a publicised grievance redressal system is in place.
- A requirement that whenever any monetary penalty is imposed on a regulated entity, such decisions are taken by a Committee unconnected with the underlying operation, and not by any individual officer, after following a due process; the details of the penalties are also disclosed on the Bank's website.
- All tenders that are floated or awarded by the Bank above a certain monetary limit are displayed on the website.

Conclusion

Being a public sector institution, the Reserve Bank of India considers preventive vigilance measures as the lynchpin of its

efforts for good governance. The extant preventive vigilance measures at the Reserve Bank have helped its employees adhere to its Regulations and the Code, with any deviations being carefully detected, scrutinised and remedied. The Central Vigilance Cell at the Reserve Bank will continue in its endeavour to preserve the highest level of integrity at the Reserve Bank by sustaining and strengthening these preventive vigilance measures further. The Reserve Bank looks forward to the Commission's support and guidance as we seek – in the ever-increasing complexity of the Reserve Bank's environment – to strengthen its preventive vigilance framework, by simplifying rules and procedures as also by leveraging technology to ensure compliance. (<https://rbidocs.rbi.org.in/rdocs/Speeches/PDFs/CVCD1939C8177BE443E587735B76A030BF37.PDF>)

Foreign Exchange Management

ECB Policy liberalised

The Reserve Bank on September 19, 2018, in consultation with the Government of India, liberalised select aspects of the External Commercial Borrowings (ECB) policy including policy on Rupee denominated bonds (RDBs) as indicated below:

- ECBs by companies in manufacturing the sector

The Reserve Bank allowed eligible ECB borrowers who are into the manufacturing sector to raise ECB up to USD 50 million or its equivalent with the minimum average maturity period of one year. Earlier, ECB up to USD 50 million or its equivalent can be raised by eligible borrowers with a minimum average maturity period of three years.

- Underwriting and market making by Indian banks for RDBs issued overseas

The Reserve Bank permitted Indian banks to participate as arrangers/underwriters/market makers/traders in RDBs issued overseas subject to applicable prudential norms. Earlier, Indian banks, subject to applicable prudential norms, can act as arranger and underwriter for RDBs issued overseas and in case of underwriting an issue, their holding cannot be more than 5 per cent of the issue size after 6 months of issue. (<https://rbi.org.in/Scripts/NotificationUser.aspx?Id=11375&Mode=0>)

Award for Outstanding Writings in Banking Hindi

With a view to encouraging original writings and research in Banking Hindi, the Reserve Bank of India has launched an 'Award scheme for outstanding writings in the field of banking Hindi'. Under this scheme, working/retired professors (including Assistant and Associates) of Indian universities may be awarded three prizes of ₹1,25,000.00 each for writing books originally in Hindi on economics/banking/financial subjects. All professors willing to participate in the scheme, are requested to submit their nominations in the prescribed proforma to General Manager, Reserve Bank of India, Rajbhasha Vibhag, Central Office, C-9, 8th Floor, Bandra Kurla Complex, Mumbai - 400 051 on or before 5 PM on November 30, 2018.