



## Volume XIII ♦ Issue 3 September 2016

# MONETARY AND CREDIT INFORMATION REVIEW

### Banking Regulation

#### Guidelines on Sale of Stressed Assets by Banks

The Reserve Bank, to further strengthen banks' ability to resolve their stressed assets effectively, on September 1, 2016, has put in place an improved Framework for Revitalising Distressed Assets in the Economy, governing sale of such assets by banks to Securitisation Companies (SCs)/ Reconstruction Companies (RCs) (created under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002) /other banks/Non-Banking Financial Companies /Financial Institutions.

In order to enhance transparency in the entire process of sale of stressed assets, the Reserve Bank has decided as under:

- Identification of stressed assets beyond a specified value, as may be determined by bank's policy, for sale shall be top-down that is, the head office/corporate office of the bank shall be actively involved in identification of stressed assets, including assets which are classified as Special Mention Account, to be put on sale. Early identification will help in low vintage and better price realisation for banks;
- At least once in a year, preferably at the beginning of the year, banks shall, with the approval of their Board, identify and list internally the specific financial assets identified for sale to other institutions, including SCs/RCs;
- At a minimum, all assets classified as 'doubtful asset' above a threshold amount should be reviewed by the board/board committee on periodic basis and a view, with documented rationale, is to be taken on exit or otherwise. The assets identified for exit shall be listed for the purpose of sale;
- Prospective buyers need not be restricted to SCs/RCs. Banks may also offer the assets to other banks/NBFCs/FIs, who have the necessary capital and expertise in resolving stressed assets. Participation of more buyers will result in better price discovery;
- In order to attract a wide variety of buyers, the invitation for bids should preferably be publicly solicited so as to enable participation of as many prospective buyers as possible. In such cases, it would be desirable to use e-auction platforms. An open auction process, apart from attracting a larger set of borrowers, is expected to result in better price discovery. Banks should lay down a Board approved policy in this regard;
- Banks must provide adequate time for due diligence by prospective buyers which may vary as per the size of the assets, with a floor of two weeks;
- Banks should have clear policies with regard to valuation of assets proposed to be sold. In particular, it must be clearly specified as to in which cases internal valuation would be accepted and where external valuation would be needed. However, in case of exposures beyond ₹ 50 crore, banks shall obtain two external valuation reports;

- The cost of valuation exercise shall be borne by the bank, to ensure that the bank's interests are protected;
- The discount rate used by banks in the valuation exercise shall be spelt out in the policy. This may be either cost of equity or average cost of funds or opportunity cost or some other relevant rate, subject to a floor of the contracted interest rate and penalty, if any.

As per the improved Framework, banks shall review the efficacy of their extant policies on sale of non-performing assets (NPAs), with focus on valuation of stressed assets, and rework their policies by appropriately adopting the above principles.

#### *Investment by banks in security receipts backed by assets sold by them*

In order to make sure that sale of stressed assets by banks actually result in 'true sale' of assets and to create a vibrant stressed assets market, it has been decided to progressively restrict banks' investment in Security Receipts (SRs) backed by their own stressed assets.

- i) With effect from April 1, 2017, where the investment by a bank in SRs backed by stressed assets sold by it, under an asset securitisation, is more than 50 percent of SRs backed by its sold assets and issued under that securitisation, the provisions held in respect of these SRs will be subject to a floor; this floor shall be progressive provisioning as per extant asset classification and provisioning norms, notionally treating book value of these SRs as the corresponding stressed loans, assuming these had remained, without recovery of principal, on the bank's books.
- ii) With effect from April 1, 2018, the above threshold of 50 percent will stand reduced to 10 percent.

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## Dr. Urjit R. Patel takes over as RBI Governor

Dr. Urjit R. Patel assumed charge as the twenty-fourth Governor of the Reserve Bank of India effective September 4, 2016 after serving as Deputy Governor since January 2013. He was re-appointed as Deputy Governor on January 11, 2016 after completion of his first three-year term of office. Among his assignments as Deputy Governor, Dr. Patel chaired the Expert Committee to Revise and Strengthen the Monetary Policy Framework. Representing India, he actively participated in steering the signing into force of the inter-governmental treaty and the Inter-Central Bank Agreement (ICBA) among the BRICS nations, which led to the establishment of the Contingent Reserve Arrangement (CRA), a swap line framework among the central banks of these countries.

Dr. Patel has also served at the International Monetary Fund (IMF). He was on deputation from the IMF to the Reserve Bank during 1996-1997, and in that capacity he provided advice on development of the debt market, banking sector reforms, pension fund reforms, and evolution of the foreign exchange market. He was a Consultant to the Ministry of Finance (Department of Economic Affairs), Government of India, from 1998 to 2001. He has also had other assignments in the public and private sectors.

Dr. Patel has a Ph.D in economics from Yale University, an M. Phil from University of Oxford and a B. Sc. from the University of London. ([https://www.rbi.org.in/Scripts/BS\\_PressReleaseDisplay.aspx?prid=37969](https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=37969))

### Disclosure of Investment in SRs

In addition to the existing disclosure requirements, banks shall have to make certain disclosures pertaining to their investments in security receipts.

The improved Framework also include certain changes with regard to Debt Aggregation – First right of refusal; Swiss Challenge Method – Enabling Low Vintage and Debt aggregation; Buy-Back of Financial Assets.

(<https://www.rbi.org.in/Scripts/NotificationUser.aspx?id=10588&Mode=0>)

## Free Annual Credit Report to Individuals

The Reserve Bank, has directed all Credit Information Companies (CICs) to provide access, upon request and after due authentication of the requester, to a free full credit report (FFCR) once in a calendar year (January- December) to individuals whose credit history is available with the CIC, with effect from January 1, 2017. This report must show the latest position of the credit institutions' exposure to the individual as per records available with the CIC.

The FFCR shall be in electronic format. The contents of the FFCR shall be the same as appearing in the most detailed version of the reports on the individual provided to credit institutions, including the credit score.

All CICs shall put in place necessary systems to provide access to the above described FFCR once, at any time, during a year, upon request, to individuals whose credit data they hold, from the year commencing January 1, 2017. The CICs shall notify on their website the procedure for accessing the FFCR, and also have a Board approved policy on making available the FFCR.

### Background

The Committee to recommend Data Format for Furnishing of Credit Information to Credit Information Companies (Chairman: Shri Aditya Puri) constituted by the Reserve Bank had earlier recommended that each customer of a credit institution should be provided one base level consumer Credit Information Report (CIR) free of cost every year by each Credit Information Company (CIC). Given the importance of the credit report in an individual's financial matters, he/she is entitled to have a copy of the report upon request. Further, the objective of providing

the free credit report would not be fully met unless this report includes details that figure in the full credit report that is accessed by the credit institutions while considering the request for fresh credit facilities. The report should also provide an opportunity to the borrower to have the errors, if any, in her/his credit history, rectified. Taking into account these objectives, the Reserve Bank issued the directions to all CICs to provide access to FFCR in electronic format. (<https://www.rbi.org.in/Scripts/NotificationUser.aspx?id=10590&Mode=0>)

## Equitas Small Finance Bank Ltd. commences operations

The Reserve Bank on September 12, 2016, has issued a licence to Equitas Small Finance Bank Limited to carry on the business of small finance bank (SFB) in India. Apropos the issue of licence, Equitas Small Finance Bank Limited commenced its operations as a small finance bank (SFB) from September 5, 2016. Equitas Holding P Limited was one of the 10 applicants that were issued in-principle approval for setting up SFBs.

([https://rbi.org.in/scripts/BS\\_PressReleaseDisplay.aspx?prid=38034](https://rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=38034))

## Payment Systems

### Authorisations for PPI Issuance temporarily suspended

The Reserve Bank on September 2, 2016, has decided to temporarily suspend receipt of fresh applications from banks and non-banks for grant of authorisation to operate a payment system for Pre-paid Payment Instrument (PPI) under Payment and Settlement System (PSS) Act till February 28, 2017. This will also enable the newer entities to be in compliance with revised policy framework since inception. Applications already received by the Reserve Bank till close of business on September 2, 2016 will be processed as per the extant guidelines.

During this period, change in ownership/shareholding of an existing authorised entity would be permitted only where required due to court orders, mergers or amalgamations and/or regulatory exigencies.

This temporary suspension will not be applicable to applications that may be preferred by the newly licensed Payments banks and Small Finance banks.

The Reserve Bank has been authorising non-banks and banks for issuance and operations of PPIs. So far 47 non-bank entities and 45 banks are operating payment systems for PPI.

([https://rbi.org.in/scripts/BS\\_PressReleaseDisplay.aspx?prid=37965](https://rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=37965))

## MDR Structure – Unbundling of Charges

With regard to the directions pertaining to merchant discount rates (MDR) for debit card transactions, the Reserve Bank has observed that in many instances charges for merchants are bundled and a composite fee is levied on merchants irrespective of the type of card used. This practice hinders adherence to the extant regulatory mandate. Further, this not only disincentivises merchants from accepting cards but also gives them scope to indiscriminately pass on the costs to the customers in the form of surcharge.

In order to bring greater transparency in MDR applicable at merchant level, it is advised that the acquiring banks shall:

- i) ensure that MDR are clearly unbundled for different categories of cards;
- ii) enter into separate agreements or annexes within the same agreement for debit, credit and prepaid cards so as to bring in more clarity and transparency; and
- iii) educate the merchants regarding the charges associated with different categories of cards, at the time of acquisition.

(<https://www.rbi.org.in/Scripts/NotificationUser.aspx?id=10591&Mode=0>)

### Issuance of EMV Chip and PIN Cards

Keeping in the mind the objective to further enhance the security and risk mitigation in card present transactions, and also the impact it may have on achieving the timeline for complete migration of all existing magstripe cards, the Reserve Bank on September 15, 2016 has decided not to grant any further extension beyond the respective timeline for new issuances and full migration to EMV Chip and PIN cards.

Apropos the representations received from various banks expressing difficulties in meeting the timeline on account of existing stock of magnetic stripe only cards and for completion of certification process for issuance of EMV Chip and Pin cards with their branches, the Reserve Bank had on August 27, 2015 extended the timelines for issuance of EMV Chip and Pin cards as under:

Type of Card/s	Time extended upto
Cards issued under the Prime Minister Jan Dhan Yojana (PMJDY) / Basic Savings Bank Deposit Account (BSBDA) / other Government schemes	September 30, 2016

(<https://www.rbi.org.in/Scripts/NotificationUser.aspx?id=10600&Mode=0>)

### Authorisation to operate as a BBPOU

The Reserve Bank on August 30, 2016, notified that the applications received from banks and non-banks for authorisation to operate as a Bharat Bill Payment Operating Unit (BBPOU) have been processed and decisions on approval or grant of extension of time till December 31, 2016 for achievement of net worth or return of the application, as applicable, have been communicated to these entities.

Non-bank entities whose applications were returned for want of one year domain experience at the time of applying, can seek extension of time up to December 31, 2016 for meeting this eligibility criteria provided they had commenced billing business at the time of making the application.

Entities undertaking the business of billing under the current scope of BBPS would be required to become an agent of an authorised BBPOUs or exit the business of bill payments covered under the scope of Bharat Bill Payment System (BBPS) by May 31, 2017 in cases where they

- did not apply for authorisation as a BBPOU, or
- their application for BBPOU has been returned by the Reserve Bank, or
- were granted extension of time by the Reserve Bank but are not able to achieve and report the required network by December 31, 2016.

Those entities that fail to comply with the above requirements will become liable for action under the Payment and Settlement Systems Act, 2007.

After operationalisation of BBPS and based on the experience gained, the Reserve Bank will review the need for fresh applications for authorisation to operate as a BBPOU and also consider expanding the scope of domain experience for eligibility purposes and type of bill payments covered.

([https://www.rbi.org.in/Scripts/BS\\_PressReleaseDisplay.aspx?prid=37913](https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=37913))

### Cooperative Banking

#### Advances against Term Deposits of Non-members

The Reserve Bank on September 1, 2016, permitted Salary Earners' Primary (Urban) Co-operative Banks (SEBs) to grant advances against term deposits of non-members, subject to the following conditions:

- The SEB should be fulfilling all the criteria for financially sound and well managed (FSWM) UCBS;
- The SEB should have in place an Audit Committee of the Board of Directors which is constituted and functioning in compliance with the Reserve Bank's instructions in this regard;
- The bye-laws of SEB should have a provision for giving loans to non-members against term deposits held in their own name singly or jointly with other non-members/ members;
- The SEB should maintain a reasonable margin against such advances at all times as per the policy approved by its Board;

- No credit facilities, other than advances against term deposits, shall be granted to non-members.

The permission to grant advances to non-members of SEBs was given pursuant to the deliberations in the 32nd Standing Advisory Committee meeting held on December 14, 2015.

(<https://www.rbi.org.in/Scripts/NotificationUser.aspx?id=10589&Mode=0>)

### Foreign Exchange Management

#### Transfer/Issue of Security by Person Resident outside India

The Reserve Bank on September 9, 2016, made certain amendments in the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2000 as under:

##### Amendment to Schedule 1

In Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations, 200 shall be substituted by the following, namely:-

F.3	Other Financial Services		
	Financial Services activities regulated by financial sector regulators, viz., RBI, SEBI, IRDA, PFRDA, NHB or any other financial sector regulator as may be notified by the Government of India.	100 per cent	Automatic
F.3.1	Other Conditions		
	i) Foreign investment in 'Other Financial Services' activities shall be subject to conditionalities, including minimum capitalisation norms, as specified by the concerned Regulator/Government Agency. ii) 'Other Financial Services' activities need to be regulated by one of the Financial Sector Regulators. In all such financial services activity which are not regulated by any Financial Sector Regulator or where only part of the financial services activity is regulated or where there is doubt regarding the regulatory oversight, foreign investment up to 100 per cent will be allowed under Government approval route subject to conditions including minimum capitalisation requirement, as may be decided by the Government. iii) Any activity which is specifically regulated by an Act, the foreign investment limits will be restricted to those levels/limit that may be specified in that Act, if so mentioned. iv) Downstream investments by any of these entities engaged in "Other Financial Services" will be subject to the extant sectoral regulations and provisions of Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2000, as amended from time to time."		

(<https://www.rbi.org.in/Scripts/NotificationUser.aspx?id=10606&Mode=0>)

### Currency Management

#### Issue of ₹20 Banknotes

The Reserve Bank on September 15, 2016, announced that ₹ 20 denomination banknotes in the Mahatma Gandhi Series-2005, with the inset letter 'R' in both the number panels, bearing signature of Dr. Urjit R. Patel, Governor, Reserve Bank of India, and the year of printing '2016' printed on the reverse of the banknote, would be issued shortly.

The design and security features of these banknotes to be issued now is similar to the ₹ 20 banknotes in Mahatma Gandhi Series- 2005 issued earlier, except the following –

##### Obverse

##### Ascending font

The numerals in both the number panels will be in ascending size from left to right while the first three alpha-numeric characters (prefix) will remain constant in size.

**Intaglio printing**

The numeral "20", RBI seal, Mahatma Gandhi's portrait, RBI legend, Guarantee and promise clause, Governor's signature, Ashoka Pillar emblem which were hitherto printed in intaglio (raised printing) are now being printed in offset (without any raised printing). Further, rectangular identification mark on the left of the banknote has been removed.

**Colour**

While there is no change in the colour at the reverse, the colour at the obverse is lighter (due to removal of intaglio printing).

**Latent Image**

The vertical band on the right side of the Mahatma Gandhi's portrait hitherto contained a latent image showing the denominational numeral "20". The latent image was visible only when the banknote was held horizontally at eye level. This feature is no longer present.

**Reverse**

There is no change in the reverse of the banknote.

([https://www.rbi.org.in/Scripts/BS\\_PressReleaseDisplay.aspx?prid=38056](https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=38056))

**Non-Banking Regulation****Master Directions**

The Reserve Bank issued following master directions in the month of September 2016:-

Master Directions/Circulars	Date of issue
Master Direction - Non-Banking Financial Company - systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016	September 1, 2016
Master Direction - Non-Banking Financial Company –Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016	September 01, 2016
Master Direction - Non-Banking Financial Company - Account Aggregator (Reserve Bank) Directions, 2016	September 02, 2016
Master Direction- Non-Banking Financial Company Returns (Reserve Bank) Directions, 2016	September 29, 2016
Master Direction - Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 2016	September 29, 2016
Master Direction - Monitoring of Frauds in NBFCs (Reserve Bank) Directions, 2016	September 29, 2016

**RBI Working Group on Commodity Price Risk Hedging**

Exposure of Indian entities to commodity price risks has been accentuated by the growing integration of the Indian economy with the rest of the world and rising volumes of cross border trade. The Reserve Bank on September 14, 2016 has set up a working group to review the guidelines for

**Inter-Bank Hindi Essay Competition of Reserve Bank of India**

The Reserve Bank, with a view to encourage original writing in Hindi on banking subjects, has announced the following three topics for the inter-bank Hindi Essay Competition to be held for the year 2016-17:

- बैंकिंग क्षेत्र में वैश्विक चुनौतियां और भारत में बैंकों का समेकन/विलयन
- बैंकिंग क्षेत्र में साइबर क्राइम के बढ़ते कदम एवं रोकथाम के उपाय
- मेक इन इंडिया बनाम मेक फॉर इंडिया

All Officers and Staff Members (Except Rajbhasha Officers and Translators) of all public sector banks (including regional rural banks) and financial institutions can participate in this Competition. Participants may send their essay in Hindi on any one of the given topics. The last date for submission is November 30, 2016 (Wednesday).

In order to give wide publicity, the Reserve Bank has requested all public sector banks (including regional rural banks) and financial institutions to publish information regarding the competition in the House Journals/Hindi Periodicals of their institution and also to make it available on their websites. ([https://rbi.org.in/scripts/BS\\_PressReleaseDisplay.aspx?prid=37917](https://rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=37917))

hedging of commodity price risk by residents in the overseas markets during the development phase of our domestic commodity derivative market. The Working Group has members drawn from the Reserve Bank, Securities and Exchange Board of India (SEBI), commercial banks and corporates.

The composition of the Working Group is:

Shri Chandan Sinha, Executive Director, RBI	Chairman
Shri T. Rabi Sankar, Chief General Manager, RBI	Member
Shri P. K. Bindlish, Chief General Manager, SEBI	Member
Shri Venkat Nageshwar, Deputy Managing Director, State Bank of India	Member
Shri Ajit Ranade, Chief Economist, Aditya Birla Group	Member
Shri Ashish Parthasarathy, Treasurer, HDFC Bank	Member
Shri M. G. Gupta, Director (Finance), MMTC	Member
Shri Siddhartha Misra, Deputy General Manager, RBI	Convener

The terms of reference of the Working Group are:

- Assess the risks faced by resident entities and their hedging requirements,
- Identify gaps in the existing regulatory framework in relation to the hedging requirements viz. coverage of commodities, participants and products,
- Suggest the broad principles for guiding the regulatory regime for overseas hedging of commodity risks,
- Recommend a modified framework for residents hedging commodity risk overseas,
- Any other related matter.

The Working Group may invite representatives from any sector relevant to its terms of reference. Resident entities exposed to commodity price risks, industry bodies, members of academia and other interested parties may mail their suggestions / comments. To send an email, please click here.

The Group will submit its report by February 28, 2017.

([https://www.rbi.org.in/Scripts/BS\\_PressReleaseDisplay.aspx?prid=38047](https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=38047))