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MONETARY AND CREDIT INFORMATION REVIEW

Payment and Settlement System

RBI seeks Feedback on MDR for Debit Card Transactions

The Reserve Bank on February 16, 2017, placed on its website (www.rbi.org.in) for public feedback the draft circular on rationalisation of Merchant Discount Rate (MDR) for debit card transactions. The salient features of the draft circular are:

Change in Basis of MDR

Based mainly on consultations with various stakeholders, it has been decided to restructure MDR on the basis of merchant turnover rather than the present slab-rate based on transaction value. There is also a case for having a differential MDR for Government transactions and for certain special categories in view of the non-discretionary nature of those expenses, etc. Similarly, taking into account the need for encouraging asset-light digital infrastructure, such as, QR (Quick Response) Code, there is a need to differentiate MDR between acquiring infrastructure involving physical terminals, including mobile point of sale (mPOS) and digital acceptance infrastructure models, such as, QR Code. Similarly, in scenarios where the merchant is willing to pay upfront for the card acceptance infrastructure, the MDR has to be on the lower side.

Merchant Discount Rate (MDR):

The maximum MDR for debit card transactions for different merchant categories shall be as under:

Merchant Category	MDR for debit card transactions (as a per cent of transaction value)	
	Physical POS infrastructure	Digital POS
Small merchants	Not exceeding 0.40 per cent	Not exceeding 0.30 per cent
Special category of merchants	Not exceeding 0.40 per cent	Not exceeding 0.30 per cent
All other category of merchants (other than Government)	Not exceeding 0.95 per cent	Not exceeding 0.85 per cent
Government Transactions	• Flat fee of INR 5 for transaction value INR 1 to INR1000 • Flat fee of INR 10 for transaction value INR 1001 to INR 2000 • MDR not exceeding 0.50 per cent for transaction value above INR 2001 with cap of INR 250 per transaction	

MDR for debit cards for petrol/fuel shall be decided after the industry consultation process with Oil Ministry is completed.

It is reiterated that the banks and authorised card payment networks may strictly adhere to the above directions. Further, banks shall ensure that all merchants display the signage "No convenience or service charge is payable by customers" apart from any other signage.

Card networks shall suitably revise the applicable interchange and network fees, preferably on percentage basis rather than any flat fee basis. Banks shall also appropriately rationalise the monthly rentals, if any, recovered from the merchants taking into account the type of card acceptance infrastructure deployed at merchant location.

Merchant Categories:

The merchants shall be categorised as under:

(a) Small merchants with turnover outside the ambit of GST (turnover less than ₹20 lakhs p.a.)

(b) Government transactions

(c) Special category of merchants

(d) All other category of merchants with turnover within the ambit of GST (turnover above ₹20 lakhs per annum)

The present GST limits have been considered for the above classification for transparency and uniformity. As and when the GST limits undergo a change, the same may be incorporated appropriately for merchant classification.

While select merchants for special category and government transactions have to necessarily be included under the special category, banks may add other categories of merchant to the list at their own discretion.

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Sixth Bi-monthly Monetary Policy Statement, 2016-17

On the basis of an assessment of the current and evolving macroeconomic situation at its meeting on February 8, 2017 the Monetary Policy Committee (MPC) decided to:

- keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 6.25 per cent.

Consequently, the reverse repo rate under the LAF remained unchanged at 5.75 per cent, and the marginal standing facility (MSF) rate and the Bank Rate at 6.75 per cent.

The decision of the MPC is consistent with a neutral stance of monetary policy in consonance with the objective of achieving consumer price index (CPI) inflation at 5 per cent by Q4 of 2016-17 and the medium-term target of 4 per cent within a band of +/- 2 per cent, while supporting growth.

Other Highlights

- Gross Value Added (GVA) growth for 2016-17 was projected at 6.9 per cent, with risks evenly balanced around it. Growth was expected to recover sharply in 2017-18 and was projected at 7.4 percent.
- The Committee remained committed to bringing headline inflation closer to 4.0 per cent on a durable basis and in a calibrated manner.
- The Reserve Bank is committed to ensuring efficient and appropriate liquidity management with all the instruments at its command.
- Surplus liquidity to decline with progressive remonetisation.

The Committee believed that the environment for timely transmission of policy rates to banks lending rates will be considerably improved if (i) the banking sector's non-performing assets (NPAs) are resolved more quickly and efficiently; (ii) recapitalisation of the banking sector is hastened; and, (iii) the formula for adjustments in the interest rates on small savings schemes to changes in yields on government securities of corresponding maturity is fully implemented.

(https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=39505)

Statement on Developmental and Regulatory Policies

The Monetary policy Statement was also accompanied by a Statement setting out developmental and regulatory policy measures to be taken for further strengthening the banking structure and enhancing the efficacy of the payment and settlement systems. The Statement announced the decisions to:

(i) establish a separate Enforcement Department to develop a sound framework and process for enforcement action. Necessary steps have been initiated in this regard and the new department will start functioning from April 1, 2017;

(ii) set up an inter-disciplinary Standing Committee on Cyber Security to, among other things, (a) review the threats inherent in the existing/emerging technology; (b) study adoption of various security standards/protocols; (c) interface with stakeholders; and (d) suggest appropriate policy interventions to strengthen cyber security and resilience. Earlier, on June 2, 2016, based on the recommendations of the Expert Panel on Information Technology Examination and Cyber Security (Chairperson: Smt. Meena Hemachandra) the Reserve Bank had issued guidelines to banks mandating cyber security preparedness for addressing cyber risks. While banks have taken steps to strengthen their defence, the diverse and ingenious nature of recent cyber-attacks necessitated an ongoing review of the cyber security landscape and emerging threats. .

(https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=39506)

The directive is issued under Section 10(2) read with Section 18 of Payment and Settlement Systems Act 2007, (Act 51 of 2007) and will be effective from April 1, 2017.

The Reserve Bank on February 16, 2017, sought comments/ suggestions/ feedback, if any, on the draft circular from the members of the public before issuing the final guidelines.

Recent developments have given a fillip to electronic transactions including card payments even at smaller merchant establishments. Keeping this in mind, for encouraging a wider segment of merchants to accept card payments, consultations were held with stakeholders for rationalising the MDR structure for debit card transactions. This draft circular is the culmination of these discussions and seeks a shift from the present slab-rate MDR based on transaction value to merchant turnover based MDR structure, for which merchants have been suitably categorised.

Background

In March 2016, a concept paper was published on RBI website that spelt out various options for rationalisation of MDR structure along with strategies to enhance card acceptance infrastructure in the country. Further, on December 16, 2016, special measures pertaining to MDR on debit card transactions were introduced for a three month period from January 01, 2017 to March 31, 2017, wherein it was indicated that the framework for charges on electronic transactions will be reviewed in consultation with the stakeholders as it is imperative to formulate a longer term MDR structure while assessing costs incurred in card acquiring business.

Earlier, in June 2012, a regulatory cap was put in place on MDR for debit card transactions on ad-valorem basis.

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10860&Mode=0)

(https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=39598)

Government and Bank Accounts

Reimbursement of Merchant Discount Rate

To operationalise the Government of India (GoI)'s decision to absorb the Merchant Discount Rate (MDR) charges in respect of debit card transactions while making payments to Government of India (GoI), the Reserve Bank would reimburse banks the Merchant Discount Rate (MDR) on debit cards used for payment of tax and non-tax dues to GoI with effect from January 1, 2017. The Reserve Bank on February 16, 2017, advised all agency banks to accordingly forward their claims for reimbursement of MDR along with statutory auditor's certificate, as in the case of agency commission claims, to the Central Accounts Section (CAS), Nagpur on a quarterly basis. The claims may be signed by the Officer-in-Charge of the Government Banking Division of the bank. He/She should also certify that MDR charges for transaction amounts upto Rs. 1 lakh have not been collected from the payer. The first such claim may be made by April 30, 2017 for the quarter ending March 31, 2017.

(https://www.rbi.org.in/Scripts/NotificationUseraspx?Id=10860&Mode=0)

Banking Regulation

Basel III Capital Regulations - Additional Tier 1 Capital

The Reserve Bank on February 2, 2017, amended the Master Circular relating to Basel III Capital Regulations - Additional Tier 1 Capital as under:

Coupons must be paid out of 'distributable items'. In this context, coupon may be paid out of current year profits. However, if current year profits are not sufficient, coupon may be paid subject to availability of:

(i) Profits brought forward from previous years, and/or

(ii) Reserves representing appropriation of net profits, including statutory reserves, and excluding share premium, revaluation reserve, foreign currency translation reserve, investment reserve and reserves created on amalgamation.

The accumulated losses and deferred revenue expenditure, if any, shall be netted off from (i) and (ii) to arrive at the available balances for payment of coupon.

If the aggregate of: (a) profits in the current year; (b) profits brought forward from the previous years and (c) permissible reserves as at (ii) above, excluding statutory reserves, net of accumulated losses and deferred revenue expenditure are less than the amount of coupon, only then the bank shall make appropriation from the statutory reserves. In such cases, banks are required to report to the Reserve Bank within 21 days from the date of such appropriation in compliance with Section 17(2) of the Banking Regulation Act 1949.

It may be noted that prior approval of the Reserve Bank for appropriation of reserves is not required in this regard.

Payment of coupons on perpetual debt instruments (PDIs) from the reserves is, however, subject to the issuing bank meeting minimum regulatory requirements for common equity tier 1 (CET1), Tier 1 and Total Capital ratios including the additional capital requirements for domestic systemically important banks at all times and subject to the restrictions under the capital buffer frameworks (i.e. capital conservation buffer and counter cyclical capital buffer).

In order to meet the eligibility criteria for perpetual debt instruments, banks must ensure and indicate in their offer documents that they have full discretion at all times to cancel distributions / payments.

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10848&Mode=0)

RRBs can grant Larger Gold Loans

The Reserve Bank on February 16, 2017 increased the quantum of loan that could be granted by Regional Rural Banks (RRBs) under the scheme, from ₹. 1 lakh to ₹ 2 lakh subject to the following conditions:

(i) The period of the loan shall not exceed 12 months from the date of sanction;

(ii) Interest will be charged to the account at monthly rests but will become due for payment along with principal only at the end of 12 months from the date of sanction;

(iii) Regional Rural Banks (RRBs) should maintain a Loan to Value (LTV) ratio of 75 per cent on the outstanding amount of loan including the interest on an ongoing basis, failing which the loan will be treated as a Non Performing Asset (NPA).

The Reserve Bank also clarified that crop loans sanctioned against the collateral security of gold/gold ornaments shall continue to be governed by the extant income recognition, asset classification and provisioning norms for such loans.

Earlier, Regional Rural Banks (RRBs) were permitted to grant gold loans up to Rs. 1 lakh with bullet repayment option.

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10861&Mode=0)

Foreign Exchange Management

Master Directions – Money Transfer Service Scheme

The Reserve Bank on February 24, 2017, issued Master Directions relating to Money Transfer Service Scheme (MTSS), which is a quick and easy way of transferring personal remittances from abroad to beneficiaries in India. MTSS can be used for inward personal remittances into India, such as, remittances towards family maintenance and remittances favouring foreign tourists visiting India and not for outward remittance from India.

The system envisages a tie-up between reputed money transfer companies abroad known as Overseas Principals and agents in India known as Indian Agents who would disburse funds to beneficiaries in India at ongoing exchange rates. The Indian Agents can in turn also appoint sub-agents to expand their network. The Indian Agent is not allowed to remit any amount to the Overseas Principal. Under MTSS, the remitters and the beneficiaries are individuals only.

The Master Directions on the subject covers the details regarding the entry norms, authorisation, renewal and various operating instructions pertaining to the entities involved in MTSS.

Statutory Basis

The Reserve Bank of India may accord necessary permission (authorisation) to any person to act as an Indian Agent under the Money Transfer Service Scheme. No person can handle the business of cross-border money transfer to India in any capacity unless specifically permitted to do so by the Reserve Bank.

Entry Norms

- The applicant to become an Indian Agent should be an Authorised Dealer Category-I bank or an Authorised Dealer Category-II or a Full Fledged Money Changer (FFMC), or a Scheduled Commercial Bank or the Department of Posts.
- The applicant should have minimum Net Owned Funds of ₹50 lakh.

Applying to the Reserve Bank

Application for necessary permission to act as an Indian Agent may be made to the respective regional office of the Foreign Exchange Department of the Reserve Bank of India, under whose jurisdiction the registered office of the applicant falls and should be accompanied by the documents pertaining to its proposed Overseas Principal, as prescribed.

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10868&Mode=0)

Multilateral and Regional FI Investors

In order to provide more choices of investors to Indian entities issuing Rupee denominated bonds abroad, the Reserve Bank on February 16, 2017, permitted multilateral and regional financial institutions(FIs) where India is a member country, to invest in Rupee denominated bonds.

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10865&Mode=0)

NRIs can access ETCD Market

With a view to enabling additional hedging products for Non Resident Indians (NRIs) to hedge their investments in India so that they can hedge the currency risk arising out of their investments in India, the Reserve Bank on February 2, 2017, permitted them to access the Exchange Traded Currency Derivatives (ETCD) market., The following are the terms and conditions to be followed:

- NRIs shall designate an authorised dealer (AD) category-I bank for the purpose of monitoring and reporting their combined positions in the Over-the-counter (OTC) and ETCD segments;
- NRIs may take positions in the currency futures / exchange traded options market to hedge the currency risk on the market value of their permissible (under FEMA, 1999) Rupee investments in debt and equity and dividend due and balances held in NRE accounts;
- The exchange/clearing corporation will provide details of all transactions of the NRI to the designated bank;
- The designated bank will consolidate the positions of the NRI on the exchanges as well as the OTC derivative contracts booked with them and with other AD banks. The designated bank shall monitor the aggregate positions and ensure the existence of underlying Rupee currency risk and bring transgressions, if any, to the notice of the Reserve Bank of India/Securities and Exchange Board of India (SEBI);
- The onus of ensuring the existence of the underlying exposure shall rest with the NRI concerned. If the magnitude of exposure through the hedge transactions exceeds the magnitude of underlying exposure, the concerned NRI shall be liable to such penal action as may be taken by Reserve Bank of India under the Foreign Exchange Management Act (FEMA), 1999.

Currently, NRIs are permitted to hedge their Rupee currency risk through OTC transactions with AD banks.

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10849&Mode=0)

Compounding of Contraventions

The Reserve Bank on February 2, 2017, delegated further powers to its Regional Offices as under:

FEMA Regulation	Brief Description of Contravention
Paragraph 9(2) of Schedule I to FEMA 20/2000-RB dated May 3, 2000	Delay in filing the Annual Return on Foreign Liabilities and Assets (FLA return), by all Indian companies which have received Foreign Direct Investment in the previous year(s) including the current year.

The powers to compound the contraventions have also been delegated to all Regional Offices (except Kochi and Panaji) without any limit on the amount of contravention.

Kochi and Panaji Regional offices can compound the above contraventions for amount of contravention below Rupees One hundred lakh (₹1,00,00,000/-) only. The contraventions of Rupees One hundred lakh (₹1,00,00,000/) or more under the jurisdiction of Kochi and Panaji Regional Offices will continue to be compounded at Central Office as earlier.

Accordingly, applications for compounding the above contraventions, up to the amount of contravention may be submitted by the concerned entities to the respective Regional Offices under whose jurisdiction they fall. For all other contraventions, applications may continue to be submitted to Foreign Exchange Department, 5th floor, Amar Building, Sir P. M. Road, Mumbai - 400001.

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10847&Mode=0)

Non - Banking Regulation

Review of Guidelines on "Pricing of Credit"

The Reserve Bank on February 2, 2017, advised all Non-Banking Financial Company – Micro Finance Institutions (NBFC-MFIs) to ensure that the average interest rate on loans sanctioned during a quarter does not exceed the average borrowing cost during the preceding quarter plus the margin, within the prescribed cap.

Earlier, NBFC-MFIs were required to ensure that the average interest rate on loans during a financial year did not exceed the average borrowing cost during that financial year plus the margin, within the prescribed cap.

The instructions on "Pricing of Credit" issued to NBFC-MFIs were modified as average base rate of banks is published by the Reserve Bank on quarterly basis.

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10846&Mode=0)

Currency Management

Chest Balance Limit/Cash Holding Limit

The Reserve Bank on February 13, 2017, advised that till further instructions Specified Bank Notes (SBNs) deposited in the currency chests, since November 10, 2016, would be considered as part of the chest balance in the soiled note category but such deposits would not be reckoned for calculating Chest Balance Limit/Cash Holding Limit.

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10858&Mode=0)

Financial Market Regulation

FRA and IRS - Withdrawal of Fortnightly Return

In a step towards rationalisation of returns, the Reserve Bank on February 16, 2017, advised banks that the requirement to submit fortnightly return on the Forward Rate Agreement (FRA) and Interest Rate Swap (IRS) was withdrawn with immediate effect. Accordingly, banks need not send the hard copy of the return to the Reserve Bank.

The existing procedure for reporting Over-the-Counter (OTC), Foreign Exchange and Interest Rate Derivative transactions to the trade repository hosted by Clearing Corporation of India Ltd (CCIL) shall continue.

Earlier, banks were advised to submit a fortnightly return on FRA/IRS to Monetary Policy Department of the Reserve Bank with a copy to various other departments.

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10864&Mode=0)

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