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MONETARY AND CREDIT INFORMATION REVIEW

POLICY

One Documentary Proof of Address for Bank Accounts

The Reserve Bank on June 9, 2014, simplified the requirement of submission of 'proof of address' with regard to the know your customer (KYC) norms while opening a bank account, as follows:

- Customers may submit only one documentary proof of address (either current or permanent) while opening a bank account or while undergoing periodic updation. In case the address mentioned as per 'proof of address' undergoes a change, fresh proof of address may be submitted to the branch within a period of six months.
- In case the proof of address furnished by the customer is not the local address or address where the customer is currently residing, the bank may take a declaration of the local address on which all correspondence will be made by the bank with the customer. No proof is required to be submitted for such address for correspondence/local address. This address may be verified by the bank through 'positive confirmation' such as acknowledgment of receipt of (i) letter, cheque books, ATM cards; (ii) telephonic conversation; (iii) visits; etc. In the event of change in this address due to relocation or any other reason, customers may intimate the new address for correspondence to the bank within two weeks of such a change.

Basel III Framework on Liquidity Standards

The Reserve Bank, on June 9, 2014 announced the Guidelines on Liquidity Coverage Ratio (LCR), Liquidity Risk Monitoring Tools and LCR Disclosure Standards. The guidelines were finalised taking into account comments and feedback of stakeholders. The LCR would be binding on banks from January 1, 2015.

With a view to providing a transition time to banks, the LCR requirement would be minimum 60 per cent for the calendar year 2015 beginning January 1, 2015 and rise in equal steps to reach 100 per cent on January 1, 2019, as per the time-line given below:

	Jan 1, 2015	Jan 1, 2016	Jan 1, 2017	Jan 1, 2018	Jan 1, 2019
Minimum LCR	60 per cent	70 per cent	80 per cent	90 per cent	100 per cent

A Quantitative Impact Study (QIS) conducted by the Reserve Bank as on December 2013 on a sample of banks to assess their preparedness for the Basel III Liquidity ratios indicates that the average LCR for these banks varied from 54 per cent to 507 per cent.

RBI asks Banks to share Information with SIT

The Reserve Bank, on June 23, 2014 advised all the banks and financial institutions to ensure that information/documents required by the Special Investigating Team (SIT) are made available as and when required.

The Government of India constituted the SIT to implement the decision of the Hon'ble Supreme Court on large amounts of money stashed abroad by evading taxes or generated through unlawful activities.

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Second Bi-Monthly Monetary Policy Statement, 2014-15

Dr. Raghuram G Rajan, Governor, announced the Second Bi-Monthly Monetary Policy Statement, 2014-15 on June 3, 2014. On the basis of an assessment of the current and evolving macroeconomic situation, the Reserve Bank decided to:

- keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 8 per cent;
- keep the cash reserve ratio (CRR) of scheduled banks unchanged at 4 per cent of net demand and time liabilities (NDTL);
- reduce the statutory liquidity ratio (SLR) of scheduled commercial banks by 50 basis points from 23 per cent to 22.5 per cent of their NDTL with effect from the fortnight beginning June 14, 2014;
- reduce the liquidity provided under the export credit refinance (ECR) facility from 50 per cent of eligible export credit outstanding to 32 per cent with immediate effect;
- introduce a special term repo facility of 0.25 per cent of NDTL to compensate fully for the reduction in access to liquidity under the ECR with immediate effect; and
- continue to provide liquidity under 7-day and 14-day term repos of up to 0.75 per cent of NDTL of the banking system.

Consequently, the reverse repo rate under the LAF will remain unchanged at 7.0 per cent, and the marginal standing facility (MSF) rate and the Bank Rate at 9.0 per cent.

Projections on Inflation

The Reserve Bank remains committed to keeping the economy on a disinflationary course, taking CPI inflation to 8 per cent by January 2015 and 6 per cent by January 2016. If the economy stays on this course, further policy tightening will not be warranted. On the other hand, if disinflation, adjusting for base effects, is faster than currently anticipated, it will provide headroom for an easing of the policy stance.

Liquidity Management

The Reserve Bank has decided to limit access to export credit refinance while compensating fully with a commensurate expansion of the market's access to liquidity through a special term repo facility from the Reserve Bank (equivalent to 0.25 per cent of NDTL). This should improve access to liquidity from the Reserve Bank for the system as a whole without the procedural formalities relating to documentary evidence, authorisation and verification associated with the ECR. This should also improve the transmission of policy impulses across the interest rate spectrum and engender efficiency in cash/treasury management. The measure was taken in pursuance of Dr. Urjit R. Patel Committee's recommendation to move away from sector-specific refinance towards a more generalised provision of system liquidity without preferential access to any particular sector or entity.

Forex Market

With a view to improving the depth and liquidity in the domestic foreign exchange market, the Reserve Bank decided to:

- allow foreign portfolio investors to participate in the domestic exchange traded currency derivatives market to the extent of their underlying exposures plus an additional US\$ 10 million;
- allow domestic entities similar access to the exchange traded currency derivatives market;
- to enhance the eligible limit to US\$ 125,000 without end use restrictions except for prohibited foreign exchange transactions such as margin trading, lottery and the like, keeping in view the recent stability in the foreign exchange market;
- allow all residents and non-residents except citizens of Pakistan and Bangladesh to take out Indian currency notes up to Rs 25,000 while leaving the country.

The third bi-monthly monetary policy statement is scheduled on Tuesday, August 5, 2014.

Special Drawing Facility to State Governments

The Reserve Bank, on June 20, 2014, has decided, in consultation with the State Governments, to change the nomenclature of Special Ways and Means Advances granted to the State Governments as Special Drawing Facility. The change has come into effect from June 23, 2014. Other terms and conditions of the Schemes of Special Ways and Means Advances, Normal Ways and Means Advances and Over Draft to the State Governments would remain unchanged. The Reserve Bank extends Special Drawing Facilities to State Governments under Section 17(5) of the Reserve Bank of India Act 1934.

RBI's Timelines for Regulatory Approvals and Citizens' Charter for Delivery of Services

The Reserve Bank of India, on June 23, 2014, released on its website (www.rbi.org.in) the 'Timelines for Regulatory Approvals' and 'Citizens' Charter' for delivery of services as part of implementation of the non-legislative recommendations of the Financial Sector Legislative Reforms Commission (FSLRC). These timelines are indicative. If departments are likely to exceed

the timeline, they will revert to the applicant. In case an applicant does not get a response within the indicated timeline, they can approach the head of the concerned department. The department head will respond with the status of the application, the reason for delay, request for additional information, if any, as well as the likely time for disposal of the application.

Background

As per one recommendation of the FSLRC, all regulators are required to move to a time-defined approval process, subject to applicable laws, for all permissions including licence to do business, as well as launch of products and services. Accordingly, the Reserve Bank has prepared timelines for regulatory approvals by its various departments and a Citizens' Charter for delivery of services by its departments which have public interface.

SBH to be SLBC Convenor In Telangana

The Reserve Bank has assigned convenorship of State Level Banker's Committee (SLBC) of Telangana State to State Bank of Hyderabad (SBH). The SLBC responsibility for the State of Andhra Pradesh (after carving out Telangana) has been retained with Andhra Bank.

Foreign Exchange

Enhanced Remittance Facilities

The Reserve Bank, on June 19, 2014, advised all authorised dealers of foreign exchange, to allow all residents and non-residents (except citizens of Pakistan and Bangladesh and also other travellers coming from and going to Pakistan and Bangladesh) to take out Indian currency notes up to ₹ 25,000 while leaving the country. The decision to enhance the facilities for residents and non-residents for export and import of currency was taken in view of the evolving economic conditions and with a view to facilitating travel requirements of residents travelling abroad as well as non-residents visiting India.

Now, any person resident in India:

- i) may take outside India (other than to Nepal and Bhutan) currency notes of Government of India and Reserve Bank of India notes up to an amount not exceeding ₹ 25,000 (Rupees twenty five thousand only); and
- ii) who had gone out of India on a temporary visit, may bring into India at the time of his return from any place outside India (other than from Nepal and Bhutan), currency notes of Government of India and Reserve Bank of India notes up to an amount not exceeding ₹ 25,000 (Rupees twenty five thousand only).

Any person resident outside India, not being a citizen of Pakistan and Bangladesh and also not a traveller coming from and going to Pakistan and Bangladesh, and visiting India can also bring into India and take outside India the same amount while exiting or entering through an airport.

Resident Individuals can remit upto USD 125,000

The Reserve Bank, on June 3, 2014, advised all authorised dealer (AD) category – I banks to allow remittances up to USD 125,000 per financial year, under the Liberalised Remittance Scheme (LRS), for any permitted current or capital account transaction or a combination of both. The Scheme should not, however, be used for making remittances for any prohibited or illegal activities such as margin trading, lottery, etc.

Export of Goods - Long Term Export Advances

The Reserve Bank on May 21, 2014 permitted authorised dealer category - I banks to allow exporters having a minimum of three years' satisfactory track record to receive long term export advance up to a maximum tenor of 10 years to be utilised for execution of long term supply contracts for export of goods subject to certain conditions. Further, the authorised dealer banks are advised to follow certain guidelines, in case they are required to issue bank guarantee (BG)/stand by letter of credit (SBLC) for export performance.

Three Divisions of RBI's FED to shift to New Delhi from July 15, 2014

From July 15, 2014, three divisions of Foreign Investment Division (FID) will shift to New Delhi Regional Office of the Reserve Bank. The divisions are Liaison/Branch/Project Office (LO/BO/PO) Division, Non Resident Foreign Account Division (NRFAD) and Immovable Property (IP) Division.

The new FED, CO Cell will be headed by Shri P. Shimrah, General Manager and its address is - FED, CO Cell, Foreign Exchange Department, Reserve Bank of India, New Delhi Regional Office, 6, Parliament Street, New Delhi - 110 001, India.

RBI warns about Fake Websites in its Name

It has come to the notice of the Reserve Bank, that some fake websites have been created by some unknown persons offering various banking facilities and asking members of public to apply on-line for opening "RBI Savings Account" or to submit their bank account details to receive refunds.

The Reserve Bank has reiterated that being the central bank of the country, the Reserve Bank does not offer services offered by commercial banks, such as, savings bank account, current bank account or credit cards. As such, the question of the Reserve Bank offering online banking services, as is indicated the fake sites, does not arise. The Reserve Bank has cautioned members of public not to fall prey to spurious offers made by the fake websites. The Reserve Bank has further cautioned members of public that applying on line on such websites could result in compromising one's own crucial personal information that may be misused to cause financial and other loss to them.

The divisions are at present located at 11th Floor, FED, Central Office Building, Mumbai 400001. The divisions will continue to be part of Foreign Exchange Department, Central Office, Mumbai.

NBFCs

RBI simplifies Documentation for NBFC Registration

The Reserve Bank of India has simplified the documentation for Non-Banking Financial Companies (NBFCs).

Now, there will be a common application form for NBFCs, Non-Banking Financial Company-Micro Finance Institutions (NBFC-MFIs), NBFC-Factors and Infrastructure Debt Fund - Non-Banking Financial Companies (IDF-NBFCs). The application form for Core Investment Companies (CICs) has been redesigned and there are two checklists of documents – one for registration as Non-Banking Financial Company- Infrastructure Finance Companies (NBFC-IFC) and the other for registration as IDF-NBFC. Further, while converting from an already registered NBFC to IFC/MFI/Factor, the company can simply make an application for conversion on its letterhead accompanied by the original certificate of registration and all the documents as given in the checklist. The Reserve Bank will, after scrutiny of documents, make a suitable remark on the Certificate of Registration for having converted to the new status.

The Reserve Bank also advised that the checklists mentioned are indicative and not exhaustive. The Reserve Bank can, if necessary, call for any further documents to satisfy itself on the eligibility for obtaining registration as NBFC. In the event of the Reserve Bank calling for further documents in addition to those mentioned in the checklist, the applicant company must respond within a stipulated time of one month failing which the application/request for conversion along with all the documents will be returned to the company for submission afresh with the required information/documents.

Prior RBI Approval required for Acquisition or Transfer of Control of NBFCs

The Reserve Bank, on May 26, 2014, issued directions to all the non-banking financial companies (NBFCs), both deposit accepting and non-deposit accepting, stating that prior approval of the Reserve Bank is required in case of any takeover/acquisition of shares of an NBFC; or merger/amalgamation of an NBFC with another entity; or any merger/amalgamation of an entity with an

(Continued on page 4)...

Co-operative Banking

No Foreclosure Charges/Pre-payment Penalty on Floating Loans

The Reserve Bank on, May 26, 2014, asked urban cooperative banks (UCBs) not to charge foreclosure charges/pre-payment penalties on all floating rate term loans sanctioned to individual borrowers, with immediate effect. The Reserve Bank issued a similar circular for the regional rural banks (RRBs) on May 27, 2014.

Issue of Pre-paid Payment Instruments

The Reserve Bank, on May 27, 2014, allowed all urban cooperative banks (UCBs) which have installed ATMs and issued ATM-cum-Debit Cards, to introduce 'Semi-Closed Pre-paid Payment Instruments' permitting payment of utility bill/essential services up to a limit of Rs.10,000/-. These payment instruments shall be redeemable at a group of clearly identified merchant locations/establishments which enter into contracts specifically with the UCB to accept the payment instruments. These instruments shall not permit cash withdrawal or redemption by the holder.

Harmonisation of KYC norms for FPIs

The Reserve Bank has simplified the know your customer (KYC) norms for opening bank accounts by foreign portfolio investors (FPIs). The Reserve Bank advised primary urban cooperative banks (UCBs) to rely on the KYC verification done by the third party (i.e., the Custodian/Securities and Exchange Board of India (SEBI) regulated intermediary) for FPIs who have been duly registered in accordance with SEBI guidelines and have undergone the required KYC due diligence/verification prescribed by SEBI through a custodian/intermediary regulated by SEBI, for opening a bank account for the purpose of investment under Portfolio Investment Scheme (PIS).

SEBI has further been requested to advise custodians/intermediaries regulated by them to share the relevant KYC documents with the banks concerned based on written authorisation from the FPIs.

To facilitate secondary market transactions, the Reserve Bank has advised primary UCBs bank to share the KYC documents received from the FPI or certified copies received from a custodian/regulated intermediary with other banks/regulated market intermediaries based on written authorisation from the FPI.

Prior RBI Approval required for Acquisition or Transfer of Control of NBFCs (Continued from page 3)

NBFC, that would give the acquirer/another entity control of the NBFC, or would result in acquisition/transfer of shareholding in excess of 10 percent of the paid up capital of the NBFC. Prior written approval of the Reserve Bank would also be required before approaching the Court or Tribunal under Section 391-394 of the Companies Act, 1956 or Section 230-233 of Companies Act, 2013 seeking order for mergers or amalgamations with other companies or NBFCs.

Acquisition of shares/takeover of an NBFC without the prior approval of the Reserve Bank shall result in adverse regulatory action by the Reserve Bank, including, cancellation of Certificate of Registration of the concerned NBFC.

OTHER NEWS

New features in RTGS System

The Reserve Bank on June 20, 2014, decided to enable the 'Hybrid' and 'Future value dated transaction' features in the Real Time Gross Settlement System (RTGS). The features will be effective from July 14, 2014. The hybrid feature will be configured to do off-setting every five minutes. The transactions with normal priority would be settled in off-setting mechanism, with a maximum of two attempts, i.e., the maximum time a transaction would be in "normal" queue is 10 minutes. If the transactions with normal priority are unable to be settled in offsetting mode within this time, the priority of the transaction would be automatically changed to "urgent". The parameter value will be set to 10 per cent. This means that 10 per cent of the balance in the settlement account would be taken for settlement in the offsetting mode. The Future Value dated Transaction would enable the customers/participants to initiate RTGS transactions three working days in advance for settling in RTGS on value date

RBI authorises three non-bank entities for WLAs

The Reserve Bank has issued certificates of authorisation to three non-bank entities for setting up and operating white label ATMs (WLAs) in India and they are- (i) BTI Payments Private Limited, Bangalore, (ii) Srei Infrastructure Finance Limited, Kolkata, (iii) Riddi Siddhi Bullions Limited, Mumbai

Earlier, four entities were authorised to operate as WLAs, namely, Tata Communications Payment Solutions Limited, Mumbai; Prizm Payment Services Pvt. Ltd., Mumbai; Muthoot Finance Limited, Kochi and Vakrangee Limited, Mumbai.

Non-bank entities have been permitted to set up and operate WLAs in the country after seeking authorisation under the Payment and Settlement Systems Act, 2007 since June 2012. Till then only banks were permitted to set up and operate ATMs in India. The primary objective of permitting non-banks to operate WLAs was to enhance the spread of ATMs in semi-urban and rural areas, mainly tier III to VI areas, where bank owned ATM penetration was not growing. Under the new guidelines, certain minimum number of WLAs need to be installed in these areas in three years as per the scheme opted by the respective operator.

Dear Readers,

e-MCIR from July

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Beginning its July 2014 issue, MCIR, will be available to its readers only on RBI website (<http://www.rbi.org.in/MCIR>).

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Editor