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# MONETARY AND CREDIT INFORMATION REVIEW

## Consumer Education and Protection

### RBI amends Banking Ombudsman Scheme

The Reserve Bank of India, on June 23, 2017, widened the scope of its Banking Ombudsman Scheme 2006, to include, inter alia, deficiencies arising out of sale of insurance/ mutual fund/ other third party investment products by banks. Under the amended Scheme, a customer would also be able to lodge a complaint against the bank for non-adherence to the Reserve Bank instructions with regard to mobile banking/ electronic banking services in India.

The pecuniary jurisdiction of the Banking Ombudsman to pass an Award has been increased from existing rupees one million to rupees two million. Compensation not exceeding rupees hundred thousand can also now be awarded by the Banking Ombudsman to the complainant for loss of time, expenses incurred, as also, harassment and mental anguish suffered by the complainant.

The procedure for complaints settled by agreement under the Scheme has also been revised. Appeal has now been allowed for the complaints relating to rejection which was not available earlier.

The Reserve Bank has also released a Notification dated June 16, 2017 amending the Banking Ombudsman Scheme 2006. The amended Scheme shall come into force from July 1, 2017. The amended Scheme is available on the Reserve Bank's website at https://www.rbi.org.in/commonman/English/Scripts/AgainstBank.aspx

(https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=40853)

## Banking Regulation

### Banks can use INFOMERICS for Credit Rating

The Reserve Bank, on June 13, 2017, advised all scheduled commercial banks that they may also use the ratings of the INFOMERICS (Integrated Financial Omnibus Metrics Research of International Corporate Systems) Valuation and Rating Pvt Ltd., for the purpose of risk weighting their claims for capital adequacy purposes in addition to the existing six domestic credit rating agencies (CARE, CRISIL, FITCH India, ICRA, Brickwork Ratings and SMERA). The rating-risk weight mapping for the long term and short term ratings assigned by INFOMERICS will be the same as in case of other rating agencies.

Earlier on July 1, 2015, the six domestic credit rating agencies were accredited for the purpose of risk weighting the banks' claims for capital adequacy purposes. The long term and short term ratings issued by these domestic credit rating agencies have been mapped to the appropriate risk weights applicable as per the Standardised Approach under the Basel II Framework.

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11000&Mode=0)

### Recording Details of Entries in Accounts

In the interest of better customer service, the Reserve Bank, on June 22, 2017, advised banks to provide, at a minimum, the relevant details of entries in the accounts. Banks shall also incorporate information about 'deposit insurance cover' along with the limit of coverage, subject to change from time to time, upfront in the passbooks.

*Background*

It had come to the Reserve Bank's notice that many banks still do not provide adequate details of the transactions in the passbooks and/ or statements of account to enable the account holders to cross-check them. Banks were earlier advised to avoid inscrutable entries in passbooks/ statements of account and ensure that brief, intelligible particulars are invariably entered in passbooks/ statements of account with a view to avoiding inconvenience to depositors.

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11009&Mode=0)

## Banking Supervision

### Accounts for Reference by Banks under IBC

The Reserve Bank, on June 13, 2017, informed that an Internal Advisory Committee (IAC) constituted in accordance with the promulgation of the Banking Regulation (Amendment) Ordinance, 2017, held its first meeting on June 12, 2017. The IAC, in the meeting, agreed to focus on large stressed accounts at this stage and accordingly took up for consideration the accounts which were classified partly or wholly as non-performing from among the top 500 exposures in the banking system.

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### Clarification on Banks under PCA

The Reserve Bank, on June 5, 2017, clarified that the Prompt Corrective Action (PCA) framework was not intended to constrain normal operations of the banks for the general public.

It was further clarified that the Reserve Bank, under its supervisory framework, used various measures/tools to maintain sound financial health of banks. PCA framework was one of such supervisory tools, which involved monitoring of certain performance indicators of the banks as an early warning exercise and was initiated once such thresholds as relating to capital, asset quality were breached. Its objective was to facilitate the banks to take corrective measures including those prescribed by the Reserve Bank, in a timely manner, in order to restore their financial health. The framework also provided an opportunity to the Reserve Bank to pay focussed attention on such banks by engaging with the management more closely in those areas. The PCA framework was, thus, intended to encourage banks to eschew certain riskier activities and focus on conserving capital so that their balance sheets could become stronger.

The Reserve Bank also emphasised that the PCA framework had been in operation since December 2002 and the guidelines issued on April 13, 2017 was only a revised version of the earlier framework.

*Background*

The Reserve Bank of India had come across some misinformed communication circulating in some section of media including social media, about the PCA framework.

(https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=40668)

**Accounts for Reference by Banks under IBC**

*continued from page 1...*

The IAC also arrived at an objective, non-discretionary criterion for referring accounts for resolution under Insolvency and Bankruptcy Code, 2016 (IBC). In particular, the IAC recommended for IBC reference all accounts with fund and non-fund based outstanding amount greater than ₹ 5000 crore, with 60 per cent or more classified as non-performing by banks as of March 31, 2016. The IAC noted that under the recommended criterion, 12 accounts totalling about 25 per cent of the current gross NPAs of the banking system would qualify for immediate reference under IBC.

As regards the other non-performing accounts which did not qualify under the above criteria, the IAC recommended that banks should finalise a resolution plan within six months. In cases where a viable resolution plan is not agreed upon within six months, banks should be required to file for insolvency proceedings under the IBC.

The Reserve Bank, based on the recommendations of the IAC, would accordingly be issuing directions to banks to file for insolvency proceedings under the IBC in respect of the identified accounts. Such cases would be accorded priority by the National Company Law Tribunal (NCLT).

*Background*

The Reserve Bank had, through a press release on May 22, 2017, outlined the steps taken and those on the anvil pursuant to the promulgation of the Banking Regulation (Amendment) Ordinance, 2017. The press release had mentioned, inter alia, that the Reserve Bank would be constituting a committee comprising majorly of its independent Board Members to advise it in regard to the cases that might be considered for reference for resolution under the IBC.

(https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=40743)

## Co-operative Bank Regulation

### Regulations for Issue of PPIs

The Reserve Bank, on May 25, 2017, permitted all licensed co-operative banks having their own Automated Teller Machine (ATM) network to issue semi-closed Pre-Paid Payment Instruments (PPIs), provided there were no restrictions on acceptance or repayment of deposits. This was subject to the compliance with eligibility criteria and other guidelines as prescribed by the Department of Payment and Settlement Systems (DPSS) of the Reserve Bank from time to time.

Further, co-operative banks satisfying the above criteria, have also been permitted to issue Open System PPIs. The banks should comply with the following additional regulatory requirements for this purpose:

- The bank should be Core Banking Solution (CBS) compliant;
- Capital to Risk (Weighted) Assets Ratio (CRAR) should not be less than 10 per cent in the current and preceding financial year;
- Gross Non - performing assets (NPAs) should be less than 7 per cent and net NPAs should not be more than 3 per cent in the current and preceding financial year;
- Assessed net-worth should be more than Rs.25 crore as per the last Reserve Bank inspection;
- There should not be any default in the maintenance of Cash Reserve Ratio (CRR)/ Statutory liquidity ratio (SLR) during the current and preceding financial year;
- The bank should have made a net profit in the preceding financial year;
- Presence of two professional directors on the Board of the bank and prevalence of systems and control as under:

(i) internal inspection / audit system for all the branches and the Head Office

(ii) concurrent audit system in all major branches

- Satisfactory adherence to Know Your Customer (KYC)/Anti- Money Laundering (AML)/ Combating Financing of Terrorism guidelines issued by the Reserve Bank from time to time;
- No monetary penalty should have been imposed on the bank in last two financial years and during the year of submitting the application;
- The bank shall have satisfactorily implemented a comprehensive Board approved policy on Customer grievance redressal mechanism which includes escalation matrix for resolution of customer complaints.

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10981&Mode=0)

### RBI's Overseeing Committee

The Reserve Bank ,on June 22, 2017, announced the composition of the Overseeing Committee (OC) as under:

- Shri Pradeep Kumar (Chairman)
- Shri Janki Ballabh
- Shri M.B.N Rao
- Shri Y. M. Deosthalee
- Shri S. Raman (with effect from September 7, 2017)

The reconstituted OC will work with an expanded mandate to review, in addition to cases being restructured under the Scheme for Sustainable Structuring of Stressed Assets (S4A), resolution of other cases where the aggregate exposure of the banking sector to the borrowing entity is greater than ₹ 500 crore.

*Background*

The Reserve Bank, on May 22, 2017, outlined the steps taken and those on the anvil pursuant to the promulgation of the Banking Regulation (Amendment) Ordinance, 2017, had, inter alia, mentioned about the reconstitution of the OC with an expanded mandate. The Reserve Bank has since brought the OC under its aegis. The OC will, for the present, have five members, including a chairman, and will work through multiple benches as may be necessary and constituted by the Chairman to opine on the cases referred to it by the banks.

(https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=40834)

## Second Bi-monthly Monetary Policy Statement 2017-18

The fifth meeting of the Monetary Policy Committee (MPC), constituted under section 45ZB of the amended Reserve Bank of India Act, 1934, was held on June 6 and 7, 2017 at the Reserve Bank of India, Central Office, Fort, Mumbai.

The meeting was attended by all the members - Dr. Chetan Ghate, Professor, Indian Statistical Institute; Dr. Pami Dua, Director, Delhi School of Economics; Dr. Ravindra H. Dholakia, Professor, Indian Institute of Management, Ahmedabad; Dr. Michael Debabrata Patra, Executive Director (the officer of the Reserve Bank nominated by the Central Board; Dr. Viral V. Acharya, Deputy Governor in charge of monetary policy - and was chaired by Dr. Urjit R. Patel, Governor.

On the basis of an assessment of the current and evolving macroeconomic situation at its meeting on June 7, 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 remains at 6.0 per cent, and the marginal standing facility (MSF) rate and the Bank Rate at 6.50 per cent.

The decision of the MPC is consistent with a 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. The main considerations underlying the decision are set out in the statement below.

Other highlights of the Monetary Policy Resolution included:

- The implementation of the GST is not expected to have a material impact on overall inflation.
- As per Central Statistics Office (CSO), the growth of real gross value added (GVA) for 2016-17 has been pegged at 6.6 per cent, 0.1 percentage point lower than the second advance estimates released in February 2017.
- The projection of real GVA growth for 2017-18 revised 10 bps downwards from the April 2017 projection to 7.3 per cent, with risks evenly balanced.
- The twin balance sheet problem - over-leveraged corporate sector and stressed banking sector - may delay the revival in private investment demand.
- Current account deficit (CAD) for 2016-17 likely to remain within 1 percent of GDP.
- Surplus liquidity to decline with progressive remonetisation.

**Developmental and Regulatory Policies**

*Liquidity Management Framework for Monetary Policy Operations*

- Headline CPI inflation in Q4 of 2016-17 expected to be below 5 percent. Inflation projected in the range of 4-4.5 percent in first half of 2017-18 and in the range of 4.5-5 percent in the second half
- The MPC remains committed to bringing headline inflation closer to 4.0 per cent.
- Absorption operations undertaken by the Reserve Bank for surplus liquidity management averaged ₹3.8 trillion in April and ₹3.4 trillion in May, comprising issuance of treasury bills (TBs) under market stabilisation scheme (MSS), auction of cash management bills (CMBs) and variable rate reverse repo auctions of different tenors.
- With the narrowing of the LAF corridor from +/- 50 bps to +/- 25 bps in April 2017, it was ensured that weighted average call money rate (WACR) broadly traded within the LAF corridor.
- The daily average overall surplus liquidity in the banking system rose to ₹4.2 trillion in April and ₹3.5 trillion in May.

*Banking Regulations and Supervision*

- The Reserve Bank will continue to work in partnership with the Government to address the stress in banks' balance sheets.
- Better alignment of administered interest rates on small savings with market rates and stepped-up recapitalisation of banks for adequate flow of credit to productive sectors are important steps to follow through.

*Financial Markets*

- International financial markets have been lifted by improving global growth prospects, broadly accommodative monetary policy stances of systemic central banks and generally positive incoming data.
- Equity markets in most AEs have gained in Q2, surpassing past peaks in the US; boosted by corporate profits in Japan; and supported by easing political tensions and upbeat data in the case of the Euro area.
- The US dollar has weakened in May after dovish guidance by the Federal Reserve and unexpected political events.

## Financial Inclusion and Development

### URCs to be banked

The Reserve Bank, on June 8, 2017, advised State Level Banker's Committee (SLBCs) Convenor banks to review and identify the unbanked rural centres (URCs) in villages with population above 5000, in light of the revised guidelines on rationalisation of branch authorisation policy and ensure that such unbanked rural centres in villages with population above 5000, if any, are banked forthwith by opening of Core Banking Solution(CBS) enabled banking outlet. A confirmation stating that all unbanked rural centres in villages with population above 5000 have been banked, may be furnished to the respective Regional Office of Financial Inclusion and Development Department of the Reserve Bank, latest by December 31, 2017.

*Background*

SLBCs were advised to identify villages with population above 5000 without a bank branch of a scheduled commercial bank in their State and allot these villages among scheduled commercial banks (including Regional Rural Banks) for opening brick and mortar branches.

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10998&Mode=0)

## Financial Market Regulation

### Introduction of LEI for OTC Derivatives Markets

The Reserve Bank, on June 1, 2017, implemented the Legal Entity Identifier (LEI) system for all participants in the Over-the-Counter (OTC) markets for Rupee interest rate derivatives, foreign currency derivatives and credit derivatives in India, in a phased manner. All current and future participants would be required to obtain the unique LEI code. Entities without an LEI code would not be eligible to participate in the OTC derivative markets, after the date specified in the schedule.

Entities can obtain LEI from any of the Local Operating Units (LOUs) accredited by the Global Legal Entity Identifier Foundation (GLEIF) – the entity tasked to support the implementation and use of the LEI. In India, LEI code may be obtained from Legal Entity Identifier India Ltd.(LEIL) (https://www.ccilindia-lei.co.in), which has been recognised by the Reserve Bank as issuer of LEI under the Payment and Settlement Systems Act, 2007 and is accredited by the GLEIF as the Local Operating Unit (LOU) in India for issuance and management of LEI.

After obtaining LEI code, entities should ensure that they are renewed as per GLEIF guidelines. Lapsed LEIs will not be deemed valid for Trade Repository (TR) reporting.

*Background*

The LEI code has been conceived of as a key measure to improve the quality and accuracy of financial data systems for better risk management post the Global Financial Crisis. The LEI is a 20-character unique identity code assigned to entities who are parties to a financial transaction.

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10988&Mode=0)

## Foreign Exchange Management

### Issuance of Rupee denominated Bonds Overseas

On a review of the laid down framework for issuance of Rupee denominated bonds overseas (Masala Bonds) and with a view to harmonise the various elements of the External Commercial Borrowing (ECB) framework, the Reserve Bank on June 7, 2017, has decided that any proposal of borrowing by eligible Indian entities by issuance of these bonds would be examined at the Foreign Exchange Department, Central Office, Mumbai. Further, it has also been decided to revise the provisions in respect of maturity period, all-in-cost ceiling and recognised lenders (investors) of Masala Bonds as under:

(i) *Maturity period:* Minimum original maturity period for Masala Bonds raised upto USD 50 million equivalent in INR per financial year should be 3 years and for bonds raised above USD 50 million equivalent in INR per financial year should be 5 years.

(ii) *All-in-cost ceiling:* The all-in-cost ceiling for such bonds will be 300 basis points over the prevailing yield of the Government of India securities of corresponding maturity.

(iii) *Recognised investors:* Entities permitted as investors should not be related party.

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10994&Mode=0)

## Government and Bank Accounts

### Recording of PPO Number in Pensioners' Passbooks

The Reserve Bank, on June 8, 2017, advised all agency banks to record the Pension Payment Order (PPO) numbers on the passbook of pensioners/family pensioners.

This is to alleviate the difficulties reported by pensioners/family pensioners to get duplicate PPO in case of missing of original PPO, transfer of pension account from one bank/branch to another bank/branch, commencement of family pension to spouse or dependent children after the death of pensioner, etc., in the absence of ready availability of PPO numbers.

*Background*

The Reserve Bank noticed that a few agency banks have not yet implemented the instructions regarding recording of the PPO number in all the pension passbooks of the pensioners/family pensioners issued to them in all their branches.

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10997&Mode=0)

### Period for Submission of Agency Commission Claims

The Reserve Bank, on June 15, 2017, reduced the time period allowed to agency banks to furnish their claims on agency commission to the Reserve Bank from two quarters to 90 days from the end of the quarter in which the transactions have been conducted. If the banks fail to lodge the claims within the stipulated period mentioned above, they may forward the same only after giving reasons for delay.

This will be applicable for the agency commission claims for the quarter ended June 30, 2017 onwards.

*Background*

All agency banks were advised to submit their eligible agency commission claims to the Reserve Bank within two quarters from the end of the quarter during which the transactions have been conducted.

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11001&Mode=0)

### Agency Commission for Government Receipts

With reference to the implementation of Goods and Service Tax (GST) regime, the Reserve Bank, on June 22, 2017, has advised that a single Common Portal Identification Number (CPIN), processed successfully leading to generation of a challan Identification Number (CIN), under GST payment process, may be treated as a single transaction, even if multiple major head/sub major head/minor head of accounts are credited. This means that CGST, SGST, IGST and Cess etc. paid through a single challan would constitute a single transaction. Thus, all such records clubbed under a single challan, that is, CPIN have to be treated as a single transaction for the purpose of claiming agency commission. This will come into effect from July 1, 2017.

Similarly, in case of transactions not covered under GST, it is emphasised that a single challan (electronic or physical) should be treated as single transaction only and not multiple transactions, even if the challan contains multiple major head/sub major head/minor head of accounts that will get credited. We reiterate that records clubbed under a single challan processed successfully have to be treated as a single transaction for the purpose of claiming agency commission.

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11010&Mode=0)

## Internal Debt Management

### Submission of Annual Information Return

The Reserve Bank, on May 25, 2017, conveyed to all banks that Income Tax Department has brought about the undermentioned changes in the Annual Information Return (AIR):

- Name of the AIR has been changed as Statement of Financial Transaction
- Limit of amount has been changed from ₹ 5 lakh or more to ₹10 lakh or more in a Financial Year
- Date of filing has been changed from August 31 of the immediately following Financial Year to May 31

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10979&Mode=0)

Further It is observed that a few Agency banks were submitting Annual Information Returns (AIR, now changed to Statement of Financial Transactions (SFT)) in respect of Savings Bonds to Income Tax Authorities as well as to the Reserve Bank.

As the Reserve Bank too, consolidates and submits this information to Income Tax (IT) Department, and in order to avoid the duplication of data relating to Savings Bonds, the Reserve Bank on May 30, 2017 has advised Agency banks/Stock Holding Corporation of India Ltd. (SHCIL) that henceforth the required information is to be furnished only to Public Debt Offices of the respective jurisdiction. They need not submit this information to Income Tax Authorities separately.

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10987&Mode=0)

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