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Banking Regulation

Banks can give Partial Credit Enhancement to NBFC/HFC Bonds

The Reserve Bank on November 2, 2018 allowed banks to provide partial credit enhancement (PCE) to bonds issued by the systemically important non-deposit taking non-banking financial companies (NBFC-ND-SIs) registered with the Reserve Bank of India and Housing Finance Companies (HFCs) registered with National Housing Bank, subject to the following conditions:

- The tenor of the bonds issued by NBFC-ND-SIs/HFCs for which PCEs are provided shall not be less than three years;
- The proceeds from the bonds backed by PCE from banks shall only be utilised for refinancing the existing debt of the NBFC-ND-SIs/HFCs. Banks shall introduce appropriate mechanisms to monitor and ensure that the end-use condition is met;
- The exposure of a bank by way of PCEs to bonds issued by each such NBFC-ND-SI/HFC shall be restricted to one per cent of capital funds of the bank within the extant single/group borrower exposure limits; and
- The exposure of banks to NBFC-ND-SIs/HFCs by way of PCEs shall be within the aggregate PCE exposure limit of 20 per cent. (https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11407&Mode=0)

Final Guidelines on NSFR from April 1, 2020

The Reserve Bank on November 29, 2018 advised that the final guidelines on Net Stable Funding Ratio (NSFR) would come into effect from April 1, 2020. The NSFR guidelines were issued to ensure reduction in funding risk over a longer time horizon by requiring banks to fund their activities with sufficiently stable sources of funding to mitigate the risk of future funding stress.

The draft guidelines on the NSFR for banks in India were issued on May 28, 2015 for comments. The final guidelines were issued on May 17, 2018, after considering comments received from various stakeholders. (https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11423&Mode=0)

Interest Equalisation Scheme for MSME Exports

The Reserve Bank, on November 29, 2018, conveyed the decision of the Government of India to increase the interest equalisation rate from 3 per cent to 5 per cent in respect of exports by the micro, small and medium enterprises (MSME) sector manufacturers under the Interest Equalisation Scheme on Pre and Post Shipment Rupee Export Credit. The rate has been increased with effect from November 2, 2018. The benefit of this Interest Equalisation Scheme would be provided to all eligible MSME exporters. (https://rbi.org.in/Scripts/NotificationUser.aspx?Id=11421&Mode=0)

Foreign Exchange Management

ECB Framework reviewed

The Reserve Bank on November 6, 2018, in consultation with the Government of India, amended the following provisions of the External Commercial Borrowing (ECB) framework:

- *Minimum average maturity* - Reduce the minimum average maturity requirement for ECBs in the infrastructure space raised by eligible borrowers; and
- *Hedging requirements* - Reduce the average maturity requirement from extant 10 years to 5 years for exemption from mandatory hedging provision applicable to ECBs raised by above referred eligible borrowers. Accordingly, the ECBs with minimum average maturity period of 3 to 5 years in the infrastructure space will have to meet 100 per cent mandatory hedging requirement. Further, it is also clarified that ECBs falling under the aforesaid revised provision but raised prior to the date of this circular will not be required to mandatorily roll-over their existing hedges.

Certain eligible borrowers raising foreign currency denominated ECBs under Track I, having a minimum average maturity requirement of five years, were mandatorily required to hedge their ECB exposure fully. (https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11408&Mode=0)

Later, the Reserve Bank and the Government of India on November 26, 2018, reduced the mandatory hedge coverage from 100 per cent to 70 per cent for ECBs raised under Track I of the ECB framework by eligible borrowers. Further, it is also clarified that ECBs falling within the aforesaid scope but raised prior to the date of this circular will be required to mandatorily roll-over their existing hedge(s) only to the extent of 70 per cent of outstanding ECB exposure. (https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11418&Mode=0)

Payment and Settlement System

Banks to send Positive Confirmation for RTGS

The Reserve Bank on November 15, 2018 advised banks to send a positive confirmation to the remitter of the funds under the Real Time Gross Settlement (RTGS) system, regarding completion of the funds transfer. This would give an assurance to the remitter in RTGS that the funds have been successfully credited to the beneficiary account. This facility was earlier provided to the remitters of National Electronic Funds Transfer (NEFT) only.

Initially, the positive confirmation feature in RTGS would be available for member banks wherein both remitter and beneficiary banks access RTGS through thick client interface/SFMS member interface. Member banks are expected to communicate the same to their customers. The positive confirmation feature would be subsequently enabled for member banks accessing RTGS through other channels as well.

A new message format (camt.059) is being introduced to communicate an acknowledgement to the remitting bank containing the date and time of credit to beneficiary account. This message would flow from the beneficiary bank to the remitter bank through the SFMS. After receiving the positive confirmation from the beneficiary bank, the remitter bank shall initiate an SMS and/or generate an e-mail to the remitter.

All banks are required to put in place systems to ensure straight-through-processing (STP) based confirmation processing. The beneficiary bank shall ensure that such confirmation message is sent as soon as the amount is credited to the beneficiary account in core banking solution (CBS) while the confirmation message from the remitting bank shall be necessarily sent on a real time basis and in any case not beyond one hour after receipt of credit message from the beneficiary bank. (https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11414&Mode=0)

Non-Banking Regulation

Guidelines to NBFCs on Securitisation Transactions

The Reserve Bank on November 29, 2018 relaxed the Minimum Holding Period (MHP) requirement for originating NBFCs, in respect of loans of original maturity above five years, to receipt of repayment of six monthly instalments or two quarterly instalments (as applicable). The relaxation was given to encourage NBFCs to securitise/assign their eligible assets and is subject to the following prudential requirement:

- Minimum Retention Requirement (MRR) for such securitisation/assignment transactions shall be 20 per cent of the book value of the loans being securitised/20 per cent of the cash flows from the assets assigned.

The dispensation would be applicable to securitisation/assignment transactions carried out during a period of six months from November 29, 2018. (https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11422&Mode=0)

Financial Market Regulation

LEIC for Participation in Non-derivative Markets

The Reserve Bank on November 29, 2018 decided that all participants, other than individuals, undertaking transactions in the markets regulated by the Reserve Bank shall obtain Legal Entity Identifier (LEI) codes. Participants that will require LEIC include participants of government securities markets, money markets (markets for any instrument with a maturity of one year or less) and non-derivative forex markets (transactions that settle on or before the spot date). They are required to obtain LEIC by the due date indicated in the schedule below:

Schedule for Implementation of LEI in Money, G-sec and Forex Markets

Phase	Net Worth of Entities	Proposed deadline
Phase I	above ₹10000 million	April 30, 2019
Phase II	between ₹ 2000 million and Rs 10000 million	August 31, 2019
Phase III	up to ₹ 2000 million	March 31, 2020

Only those entities that obtain an LEI code on or before the due dates applicable to them, shall be able to undertake transactions in these financial markets after the due date, either as an issuer or as an investor or as a seller/buyer. Transactions undertaken on recognised stock exchanges are outside the purview of the LEI requirement.

In case of non-derivative forex transactions, while all inter-bank transactions shall be subject to LEI requirement, client transactions shall require LEI code for transactions involving an amount equivalent to or exceeding USD one million or equivalent thereof in other currencies.

Non-resident entities undertaking financial transactions in the relevant markets shall also require LEI code. Such entities that are not legal entities in their country of incorporation (such as, funds operated by a non-resident parent/management company that are each registered as an FPI) shall use the LEI code of the parent/management company.

Entities responsible for executing transactions, reporting or for depository functions in these markets, shall capture the LEI code of the transacting participants in their systems.

Entities can obtain LEI from any of the Local Operating Units (LOUs) accredited by the Global Legal Entity Identifier Foundation (GLEIF) (https://www.gleif.org/en). In India LEI code may be obtained from Legal Entity Identifier India Ltd. (LEIL) (https://www.ccilindia-lei.co.in).

Entities undertaking financial transactions shall ensure that their LEI code is considered current under the rules of the Global LEI System. Lapsed LEI codes shall be deemed invalid for transactions in markets regulated by the Reserve Bank.

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. Globally, use of LEI has expanded beyond derivative reporting and it is being used in areas relating to banking, securities market, credit rating, market supervision, and others. The LEI system has been implemented in a phased manner for participants (other than individuals) in the over-the-counter markets for rupee interest rate derivatives, foreign currency derivatives and credit derivatives and for large corporate borrowers of banks.

It was proposed to implement the LEI mechanism for all financial market transactions undertaken by non-individuals in interest rate, currency or credit markets regulated by the Reserve Bank. Based on comments received during the consultation, the directions on requirement of LEI Code for participation in non-derivative markets have been finalised. (https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11424&Mode=0)

RBI to undertake Survey on Indian Start-up Sector

The Reserve Bank of India has launched a survey on India's start-up sector (SISS). The survey is intended to create a profile of the start-up sector in India and provide dimensions relating to turnover, profitability and workforce. The SISS would also throw light on the problems faced by this sector.

The survey schedule and the questionnaire are placed on the Reserve Bank's website (www.rbi.org.in) under the

Mint Street Memo

Housing Services in CPI – Measurement Issues

The Reserve Bank on November 5, 2018 released Mint Street Memo No. 15 on the topic "Housing Services in CPI – Measurement Issues" by Praggya Das.

More than one in ten accommodations in urban areas of the country is provided by the employer (largely the government). These accommodations, along with privately rented and owner-occupied dwellings are sampled in consumer price index (CPI) to work out the change in the price of housing service every month. For the government accommodations, house rent allowance (HRA) foregone is used as the rental cost. This paper discusses that using HRA foregone as a measure of house rent (a) does not capture true movement in the price of housing services, and; (b) causes substantial disturbance in the measurement of monthly changes in headline CPI. To address this issue, this memo suggests alternative ways of measuring house rent in CPI.

Consumer price indices are constructed to measure monthly 'changes in prices' of a fixed consumption basket. The intention is to measure these price changes as efficiently as possible.

The memo discusses that the decadal revisions in house rent allowances by the central and state governments lead to large undulations in CPI inflation that cause analytical and communication issues for monetary policy. These changes in CPI emanate from the housing component since the sample of houses visited to collect rental information include, inter alia, government houses. Government dwellings are partially subsidised as employees have to forego HRA provided by the Government plus a nominal license fee as the notional rent.

For subsidised items, the international manual PGPCPI provides two interpretations.

- First, all items that are fully subsidised should, in principle, be excluded from CPI.
- Second, for partially subsidised items (such as employer-provided housing in the extant case), market related rates should be used to measure price changes rather than using the partial cost borne by the consumer (employee).

Using an example of partially subsidised transport fares, PGPCPI suggests that "where fares are partially subsidized by the employer the CPI expenditure weights should reflect that element of the fare paid by the employee in the base period and the price index should only reflect changes in the fare tariff and not changes in the level of subsidy arising from changes in the employee's remuneration package".

Extending this reasoning to partially subsidised government accommodations, and drawing from the discussions in the paper, it is suggested that:

First, to arrive at the share of expenditure on housing, which is eventually used as the weight for housing in CPI, NSSO uses actual rent paid for rented dwellings. In the case of employer-provided dwellings, it is taken as the portion of monthly emoluments forfeited (HRA plus license fee). The weight of housing in CPI thus arrived from CES is correct and in consonance with PGPCPI principles. This practice should continue.

Second, in CPI, rather than using HRA surrendered plus nominal license fee charged as the proxy of rent for employer-provided accommodation, the following choices can be explored:

Instead of collecting information on rent as HRA surrendered plus nominal licence fee charged from government households, rental equivalent may be used, that is, market rent of similar dwellings in the neighbouring area.

Alternately, one may use the nominal license fee that is charged by the government for rental equivalent. However, since license fee undergoes revisions only once in several years (the latest revision was in 2017 whereby the rates set in 2013 were revised), this does not qualify as the preferred option.

In this connection, it is interesting to note that government charges market rent to its employees for overstaying in the government provided accommodation beyond their entitlement. So, the notion of market rent for government accommodations exists. For CPI, in the case of owner-occupied households rental equivalent is used, even though the owner-occupied houses and rented dwellings vary in terms of quality, amenities, room size, etc. Accordingly, extending the rental equivalent approach to employer-provided dwellings may be explored.

Third, in case house rent in CPI continues to measure HRA as the equivalent for house rent, publishing information on house rent of government dwellings may be considered separately so as to facilitate assessment of underlying inflation dynamics for policy purpose. (https://rbi.org.in/Scripts/MSM_Mintstreetmemos15.aspx) head 'Forms' (available in the 'More Links' at the bottom of the home page) and sub-head 'Survey'. The questionnaire has also been mailed to all the start-up entities recognised as on March 2018 by the Department of Industrial Policy and Promotion (DIPP). Other start-ups, which have not been approached for want of location details may also participate in this survey by downloading the survey schedule from RBI website. The completed survey schedule may be mailed to siss@rbi.org.in. Individual responses or identity of the respondents will be kept confidential. Query/clarification may be mailed to sissquery@rbi.org.in

Releases

Quarterly Statistics on Deposits and Credit of SCBs

The Reserve Bank, on November 30, 2018 released its web publication entitled Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks (SCBs), September 2018 on its Database on Indian Economy (DBIE) portal (web-link: https://dbie.rbi.org.in/DBIE/dbie.rbi?site=publications#!3). Data on deposits, disaggregated by type and total credit are classified by states, districts, centres, population groups and bank groups, are collected from all SCBs, including regional rural banks (RRBs) and small finance banks (SFBs), under the basic statistical return (BSR) – 7 system.

Highlights:

- Bank credit growth (y-on-y) accelerated in September 2018 with branches across all population groups (rural/semi-urban/urban/metropolitan) recording double-digit growth.
- Private sector banks recorded credit growth above 20 per cent (y-on-y) for the fourth successive quarter; there was also an uptick in credit growth among public sector banks and RRBs.
- Deposit growth (y-on-y) also accelerated across all population groups; although it lagged behind credit expansion.
- Private sector banks remained in the lead in deposit mobilisation among public sector banks, a pick-up, albeit gradual, in deposit growth (y-on-y) has occurred over the last three quarters.
- Metropolitan branches accounted for about two-thirds of bank credit and nearly half of aggregate deposits.
- Five states (namely, Maharashtra, Delhi, Tamil Nadu, Karnataka and Uttar Pradesh) accounted for over half of the bank deposits and credit.
- The credit-deposit (C-D) ratio at the all-India level improved to 76.4 per cent in September 2018 from 75.6 per cent a quarter ago; it remained above 100 per cent for Chandigarh, Andhra Pradesh, Tamil Nadu, Maharashtra and Telangana.

Data on India's International Trade in Services

The Reserve Bank on November 15, 2018 released the monthly data on India's international trade in services. The Reserve Bank releases this data with a lag of around 45 days.

The value of exports and imports of services during the month of September 2018 are given in the following Table.

table: International Trade in Services

(US$ Million)

Month	Receipts (Exports)	Payments (Imports)
July-2018	17,553	10,850
August-2018	16,526	10,354
September-2018	16,381	9,946

Note: Data are provisional.

Monthly data on services are provisional and would undergo revision when the Balance of Payments (BoP) data are released on a quarterly basis.

OBICUS -Q2:2018-19

The Reserve Bank on November 1, 2018, launched the 43rd round of its Order Books, Inventories and Capacity Utilisation Survey (OBICUS). The survey is for the reference period July- September 2018 (Q2:2018-19).

The Reserve Bank has been conducting the Order Books, Inventories and Capacity Utilisation Survey (OBICUS) of the manufacturing sector on a quarterly basis since 2008. The information collected in the survey includes quantitative data on new orders received during the reference quarter, backlog of orders at the beginning of the quarter, pending orders at the end of the quarter, total inventories with a breakup between work-in-progress (WiP) and finished goods (FG) inventories at the end of the quarter and item-wise production in terms of quantity and value during the quarter *vis-à-vis* the installed capacity from the targeted group. The level of capacity utilisation (CU) is estimated from these responses. The survey provides valuable input for monetary policy formulation.

The survey findings are released on the website of the bank regularly. The latest results pertaining to the quarter April – June 2018 were released on October 5, 2018.

During this quarter, selected manufacturing companies will be approached by the Bank. Other manufacturing companies may also participate in the survey by downloading the survey questionnaire from the Reserve Bank's website https://www.rbi.org.in. The survey questionnaire is placed under the head 'Forms' (available under the 'More Links' at the bottom of the home page) and sub-head 'Survey'. The duly authenticated filled-in survey schedule may be e-mailed or faxed as per contact details provided in the survey schedule. Company level data are treated as confidential and never disclosed. In case of any query/clarification, contact at the following address:

The Director, Division of Enterprise Surveys, Department of Statistics and Information Management, Reserve Bank of India, C-8, 2nd floor, Bandra-Kurla Complex, Bandra (East), Mumbai-400 051, Phone - 022-26578279/386; Fax - 022-26572197 mail id-dsimobicus@rbi.org.in

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