



Volume XIII ♦ Issue 6
December 2016

**MONETARY AND CREDIT
INFORMATION REVIEW**

Highlights of Banking and Finance Developments

Banking Regulation

January

- The Reserve Bank on January 7, 2016, permitted scheduled commercial banks to grant non - fund based facilities including Partial Credit Enhancement (PCE) to those customers, who do not avail any fund based facility from any bank in India.

February

- The Reserve Bank on February 11, 2016 permitted banks to reckon government securities held by them up to another three per cent of their Net Demand and Time Liabilities (NDTL) under Facility to Avail Liquidity for Liquidity Coverage Ratio (FALLCR).
- The Reserve Bank on February 25, 2016, partially modified and also clarified, some aspects of its Prudential Guidelines for Revitalising Stressed Assets in the Economy.

March

- The Reserve Bank on March 1, 2016 made some amendments to the treatment of certain balance sheet items for the purposes of determining banks' regulatory capital.

April

- The Reserve Bank on April 21, 2016 advised that banks desirous of offering Investment Advisory Services (IAS) may do so either through a separate subsidiary set up for the purpose or one of the existing subsidiaries after ensuring that there is an arm's length relationship between the bank and the subsidiary.
- The Reserve Bank on April 28, 2016 has notified all scheduled commercial banks (excluding regional rural banks) about Audit Committee of the Board of Directors (ACB)-Calendar of Reviews, in terms of which the implementation status of Jilani Committee recommendations need to be submitted before the Audit Committee of the Board.

May

- The Reserve Bank on May 5, 2016 released the "Draft Guidelines for 'on tap' Licensing of Universal Banks in the Private Sector" on its website.
- The Reserve Bank on May 19, 2016, revised its directions allowing higher Foreign Direct Investment (FDI) limits in Credit Information Companies (CICs) to entities which have an established track record of running a Credit Information Bureau in a well regulated environment.

June

- The Reserve Bank on June 13, 2016, issued guidelines on a 'Scheme for Sustainable Structuring of Stressed Assets' (S4A) in order to further strengthen the lenders' ability to deal with stressed assets and to put real assets back on track.
- The Reserve Bank on June 23, 2016 advised all scheduled commercial banks to submit Proforma Indian Accounting Standards (Ind AS) Financial Statements, for the half year ending September 30, 2016 latest by November 30, 2016 to the Principal Chief General Manager,

Department of Banking Regulation, Central Office, Reserve Bank of India, Mumbai.

- The Reserve Bank after consultation with the Government of India on June 30, 2016 revised the Rules for Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) and incorporated a lien clause in the rules of PMJJBY from June 1, 2016.

July

- The Government of India on July 8, 2016 authorised the Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI) to act as, and to perform the functions of the Central KYC Records Registry (CKYCR).
- The Reserve Bank, on July 21, 2016 decided that in addition to previous limits, banks would be permitted to reckon government securities held by them up to another 1 per cent of their Net Demand and Time Liabilities (NDTL) under Facility to Avail Liquidity for Liquidity Coverage Ratio (FALLCR)

August

- The Reserve Bank on August 4, 2016 modified the procedure concerning the dishonour of cheques. Banks would be given the discretion to determine their response to dishonour of cheques of the account holders.
- The Reserve Bank on August 4, 2016 advised select All-India Term Lending and Refinancing Institutions(AIFIs) (Exim Bank, NABARD, NHB and SIDBI), to follow the Indian Accounting Standards.
- The Reserve Bank on August 25, 2016 clarified that in cases where a derivative contract is restructured, the mark-to-market value of the contract on the date of restructuring should be cash settled.

September

- To further strengthen banks' ability to resolve their stressed assets effectively, the Reserve Bank, on September 1, 2016, has put in place an improved Framework for Revitalising Distressed Assets in the Economy.
- The Reserve Bank on September 1, 2016 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.

(Continued on page 3)

**Dr. Viral V. Acharya appointed Deputy Governor,
Reserve Bank of India**

The Central Government, on December 28, 2016, appointed Dr. Viral V. Acharya as Deputy Governor, Reserve Bank of India for a term of three years from the date of his taking charge. Dr. Acharya, working at present as the C.V. Starr Professor of Economics, Department of Finance, New York University – Stern School of Business, will join the Reserve Bank on January 20, 2017. As Deputy Governor, Dr Acharya will look after the Monetary Policy and Research cluster.

Shift in Monetary Policy Regime

MPC constitution under the RBI Act notified

September

- The Reserve Bank of India Act, 1934 (RBI Act) was amended on September 29, 2016 by the Finance Act, 2016, to provide for a statutory and institutionalised framework for a Monetary Policy Committee (MPC), for maintaining price stability, while keeping in mind the objective of growth. The Monetary Policy Committee would be entrusted with the task of fixing the benchmark policy rate (repo rate) required to contain inflation within the specified target level. A Committee-based approach for determining the Monetary Policy will add lot of value and transparency to monetary policy decisions. The meetings of the Monetary Policy Committee shall be held at least four times a year and it shall publish its decisions after each such meeting.

The provisions of the RBI Act relating to Monetary Policy were brought into force through a Notification in the Gazette of India Extraordinary on June 27, 2016. Subsequently, the Government, in consultation with RBI, notified the inflation target in the Gazette of India Extraordinary dated August 5, 2016 for the period beginning from the date of publication of this notification and ending on the March 31, 2021, as under:-

Inflation Target:	Four per cent
Upper tolerance level:	Six per cent
Lower tolerance level:	Two per cent

- As per the provisions of the RBI Act, out of the six Members of Monetary Policy Committee, three Members are from the Reserve Bank and the other three Members of MPC are appointed by the Central Government, namely:-

- The Governor of the Reserve Bank—Chairperson, ex officio;
- Deputy Governor of the Bank, in charge of Monetary Policy—Member, ex officio;
- One officer of the Reserve Bank to be nominated by the Central Board—Member, ex officio;

d) Shri Chetan Ghate, Professor, Indian Statistical Institute (ISI) — Member

e) Professor Pami Dua, Director, Delhi School of Economics (DSE) — Member

f) Dr. Ravindra H. Dholakia, Professor, Indian Institute of Management (IIM), Ahmedabad— Member

- The Members of the Monetary Policy Committee appointed by the Central Government shall hold office for a period of four years (Source-PIB press release dated September 29, 2016 <http://www.pib.nic.in/newsite/erelease.aspx?relid=155942>)

October

- The first meeting of the Monetary Policy Committee (MPC), constituted under section 45ZB of the amended Reserve Bank of India Act, 1934, was held on October 3 and 4, 2016 at the Reserve Bank of India, Mumbai.

- According to Section 45ZL of the amended Reserve Bank of India Act, 1934, the Reserve Bank shall publish, on the fourteenth day after every meeting of the Monetary Policy Committee, the minutes of the proceedings of the meeting which shall include the following, namely:

(a) the resolution adopted at the meeting of the Monetary Policy Committee;

(b) the vote of each member of the Monetary Policy Committee, ascribed to such member, on resolutions adopted in the said meeting; and

(c) the statement of each member of the Monetary Policy Committee under sub-section (11) of section 45ZI on the resolution adopted in the said meeting.

December

- The second meeting of the Monetary Policy Committee (MPC), was held on December 6 and 7, 2016 at the Reserve Bank of India, Mumbai. The meeting was attended by all the members and was chaired by Dr. Urjit R. Patel, Governor.

Monetary Policy Decisions in 2016

Monetary Policy Review	Policy Repo Rate under the Liquidity Adjustment Facility (LAF)	Cash Reserve Ratio (CRR) of scheduled Banks of net demand and time liability (NDTL)	Statutory Liquidity Ratio (SLR) of Scheduled Commercial Banks	Liquidity under 7-day and 14-day term repos of NDTL of the banking system	Liquidity under overnight repos under the LAF
Statement on Monetary Policy on February 2, 2016	Unchanged at 6.75 per cent	Unchanged at 4.0 per cent	Reduced by 50 basis points from 22.0 per cent to 21.5 per cent of their NDTL.	Continue to provide liquidity under 14-day term repos as well as longer term repos of up to 0.75 per cent	Continue to provide liquidity under overnight repos at 0.25 per cent of bank-wise NDTL at the LAF repo rate
Statement on Monetary Policy on April 5, 2016	Reduced the policy repo rate by 25 basis points from 6.75 per cent to 6.5 per cent	Unchanged at 4.0 per cent	Reduced by 25 basis points from 21.5 per cent to 21.25 per cent of their NDTL	Status quo	Status quo
Statement on Monetary Policy on June 7, 2016	Unchanged at 6.5 per cent;	Unchanged at 4.0 per cent	21.25 per cent, unchanged	Status quo	Status quo
Statement on Monetary Policy on August 9, 2016	Unchanged at 6.5 per cent;	Unchanged at 4.0 per cent	21.25 per cent, unchanged	Status quo	Status quo
Statement on Monetary Policy on October 4, 2016	Reduced the policy repo rate by 25 basis points from 6.5 per cent to 6.25 per cent	Unchanged at 4.0 per cent	Reduced by 50 basis points from 21.25 per cent to 20.75 per cent of their NDTL	Status quo	Status quo
Statement on Monetary Policy on December 7, 2016	Unchanged at 6.25 per cent;	Unchanged at 4.0 per cent	Unchanged at 20.75 per cent	Status quo	Status quo

Currency Management

July

- The Reserve Bank decided that from July 1, 2016 the facility of exchanging the pre-2005 banknotes will be available only at the select few offices of the Reserve Bank.

November

- ₹ 500 and ₹ 1000 denominations of Bank Notes of the existing series issued by the Reserve Bank of India (Specified Bank Notes) ceased to be legal tender with effect from November 9, 2016. A new series of Bank Notes called Mahatma Gandhi (New) Series having different size and design, highlighting the cultural heritage and scientific achievements of the country, were issued on November 10, 2016.
- The Reserve Bank also advised all banks to direct their staff to familiarise themselves with the FAQs as available on RBI website (<https://www.rbi.org.in/Scripts/FAQView.aspx?Id=119>) and distribute copies of information material on salient features of the scheme, the security features of new currency notes in Mahatma Gandhi (New) Series in ₹ 2000 and ₹ 500 denominations and FAQs on the scheme, to the public.
- The Reserve Bank has come to know that at certain places, few bank branch officials, in connivance with some miscreants, are indulging in fraudulent practices while exchanging SBNs in cash / accepting SBN deposits into account. The Reserve Bank on November 22, 2016 advised banks to ensure that such fraudulent practices are stopped forthwith through enhanced vigilance and take stern action against officials involved in such activities.

December

- The Reserve Bank on December 1, 2016 has cautioned all commercial banks to abide by only those instructions which are either uploaded on its website (www.rbi.org.in) or mailed through the official mail. The banks should not rely on other unsecured/ unofficial channels like social media wherein the authenticity of the documents circulated is questionable and not verifiable. It has been reported that certain guidelines / instructions purported to be issued by RBI are being circulated in the social media by some unscrupulous elements creating confusion in the minds of the public/ bank personnel.
- The Government of India and the Reserve Bank of India issued a spate of communications to banks and members of public to operationalize the scheme. All communications released by the Reserve Bank on the subject are available on (https://www.rbi.org.in/scripts/bs_viewcontent.aspx?Id=3270) for "All You wanted to know from RBI about: Withdrawal of Legal Tender Status of ₹ 500 and ₹ 1000 Notes".

(Continued from page 1)

Banking Regulation

- 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.
- The Reserve Bank on September 29, 2016 has issued guidelines to all scheduled commercial banks and all India financial institutions to prevent the publishing of photographs of defaulting borrower/ guarantor in an indiscriminate manner in newspapers.

October

- The Reserve Bank announced a statement on October 4, 2016, to review the progress of various developmental and regulatory policy measures announced by the Reserve Bank in recent policy statements and sets out new measures to be taken for further strengthening the banking structure.
- The Reserve Bank on October 6, 2016, issued 'Operational Guidelines for Small Finance Banks' and 'Operational Guidelines for Payment Banks' considering the differentiated nature of business and financial inclusion focus of these banks.

November

- The Reserve Bank on November 8, 2016 permitted banks to raise funds through issuance of rupee denominated bonds overseas for the various specified purposes.
- The Reserve Bank on November 10, 2016 revised the Scheme for Sustainable Structuring of Stressed Assets (S4A), pertaining to the asset classification norms for loans under the Scheme.

December

- The Reserve Bank on December 7, 2016 has decided to withdraw the requirement of incremental CRR, effective the fortnight beginning December 10, 2016. All scheduled banks were required to maintain, incremental cash reserve ratio (CRR) of 100 per cent of the increase in NDTL between September 16, 2016 and November 11, 2016, effective the fortnight beginning November 26, 2016.

Banking Supervision

January

- The Reserve Bank operationalised a Central Fraud Registry (CFR) with effect from January 20, 2016.

June

- The Reserve Bank on June 2, 2016, advised all scheduled commercial banks (excluding RRBs) to immediately put in place a cyber-security policy elucidating the strategy containing an appropriate approach to combat cyber threats.

August

- The Reserve Bank on August 18, 2016 placed on its website the report of the Working Group on Development of Corporate Bond Market in India.

Payment and Settlements Systems

February

- To ensure that RTGS services are adequately priced, the Reserve Bank on February 4, 2016, revised the fee structure for members and rationalised the charges levied on them.

March

- The Reserve Bank on March 8, 2016 placed on its website the Concept Paper on Card Acceptance Infrastructure.
- The Reserve Bank on March 17, 2016 discontinued the submission of data pertaining to National Electronic Funds Transfer (NEFT) transactions by walk-in customers.

May

- The Reserve Bank on May 12, 2016 issued guidelines to all entities authorised under the Payment & Settlement Systems Act, 2007 (PSS Act) about voluntary surrender of Certificate of Authorisation (CoA).
- The Reserve Bank, on May 26, 2016 advised the banks in India and the White Label ATM operators to ensure that all the existing ATMs installed/operated by them are enabled for processing of EMV Chip and PIN cards by September 30, 2017. All new ATMs shall necessarily be enabled for EMV Chip and PIN processing from inception.
- The Reserve Bank on May 26, 2016 has advised banks to put in place their own Board approved policy on merchant acquisition to expand card acceptance infrastructure to a wider segment of merchants across all geographical locations and considering the experience gained by the banks in merchant acquiring business.

June

- The Reserve Bank on June 23, 2016 placed the "Payment and Settlement Systems in India: Vision-2018" on its website (www.rbi.org.in). The Vision-2018 aims at building best of class payment and settlement systems for a 'less-cash' India.

August

- 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.

September

- 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.

October

- The Reserve Bank on October 20, 2016 decided to put in place a framework for imposition of penalty/fine under the Payment and Settlement Systems Act, 2007 (PSS Act) and compounding of contraventions/offences under the Act.

December

- The Reserve Bank on December 6, 2016 has decided that operation in dormant accounts with banks may be allowed after due diligence as per risk category of the customer.

- The Government and the Reserve Bank has been taking several measures in consultation with the various stakeholders to incentivise greater adoption of digital payments by large sections of the society.

Foreign Exchange Management

February

- The Reserve Bank on February 11, 2016 modified the guidelines for compilation of R>Returns for reporting under the Foreign Exchange Transactions Electronic Reporting System (FETERS).

April

- The Reserve Bank on April 13, 2016 issued revised instructions relating to submission of the Annual Performance Report (APR) in Overseas Direct Investment (ODI) for Indian Party(IP)/Resident Individual(RI), who have to submit an APR to the Reserve Bank by June 30 every year in respect of each Joint Venture (JV) / Wholly Owned Subsidiary (WOS) outside India set up or acquired by the IP / RI.
- The Reserve Bank on April 21, 2016 has decided, in consultation with the Government of India, to allow foreign investment in the units of Investment Vehicles registered and regulated by SEBI or any other competent authority.
- The Reserve Bank on April 28, 2016 advised all category – I, Authorised Dealer Banks about Foreign Exchange Management (Current Account Transaction) Rules, 2000 on import of goods which provides the procedure, mode/manner of payment for imports and submission of related returns.

May

- The Reserve Bank on May 12, 2016 issued procedural guidelines for a person resident outside India to open a branch office (BO) or a liaison office (LO) or a project office (PO) in India.

June

- In line with the Government of India's start-up initiative, the Reserve Bank on June 23, 2016 has decided that an Indian start-up, having an overseas subsidiary, may open a foreign currency account with a bank outside India for the purpose of crediting to the account the foreign exchange earnings out of exports/sales made by the said startup or its overseas subsidiary.

October

- The Reserve Bank on October 6, 2016 advised all category-I authorised dealer (AD) banks that Import Data Processing and Monitoring System (IDPMS) would go live with effect from October 10, 2016, used for reporting and monitoring of the import transactions.
- The Reserve Bank in consultation with the Government of India on October 27, 2016 permitted Authorised Dealer (AD) Category-I banks to allow start-ups to raise External Commercial Borrowings (ECBs) under the prescribed framework.

Financial Inclusion and Development

January

- To adopt a tailored approach for different target groups and ensure adequate synchronisation at the ground level between the different stakeholders during the conduct of financial literacy camps, the Reserve Bank, on January 14, 2016, revised the guidelines for Financial Literacy Centres of Lead Banks.
- The Reserve Bank on January 21, 2016, advised all co-operative banks to accept cheques bearing a date as per National Calendar (Saka Samvat) for payment.

March

- The Reserve Bank in consultation with the Ministry of Micro, Small and Medium Enterprises, Government of India, on March 17, 2016 has formulated a "Revised Framework for Revival and Rehabilitation of Micro, Small and Medium Enterprises (MSMEs)" along with operating instructions.

April

- The Reserve Bank on April 7, 2016 issued instructions on trading in Priority Sector Lending Certificates (PSLCs).
- The Reserve Bank on April 21, 2016 advised banks in their own interest and as customer education effort in the interest of the public, to consider designing suitable posters or pamphlets or flyers or notices cautioning public against dubious schemes.

June

- The Reserve Bank, on June 30, 2016, advised all scheduled commercial banks to act with empathy and consider restructuring and granting fresh loans without waiting for the receipt of the insurance claims, considering the difficulties faced by farmers in areas affected by natural calamities.

August

- The Reserve Bank on August 4, 2016 notified that the Government of India has approved the implementation of the Interest Subvention Scheme for the year 2016-17 for short term crop loans upto Rs 3 lakh.

December

- In view of the constraints faced by farmers for timely repayment of loan dues on account of withdrawal of legal tender status of Specified Bank Notes (SBNs), the Reserve Bank in consultation with the Government of India on December 26, 2016 has decided to provide an additional grace period of 60 days for prompt repayment incentive of 3 Per cent to those farmers whose crop loan dues are falling due between 1st November, 2016 and 31st December, 2016 if such farmers repay the same within 60 days from the above period.

Financial Market Regulation

July

- The Reserve Bank on July 28, 2016 allowed Demat Account Holders of National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) to put through trades in Government Securities on the Negotiated Dealing System – Order Matching (NDS-OM) platform.

October

- The Reserve Bank on October 20, 2016 allowed Foreign Portfolio Investors (FPIs) to trade Government securities in the secondary market through the primary members of Negotiated Dealing System – Order Matching (NDS-OM) including the web-module.
- The Reserve Bank on October 28, 2016 introduced Interest Rate Futures based on any rupee denominated money market interest rate or money market instrument on Securities and Exchange Board of India (SEBI) authorised stock exchanges.

Non - Banking Regulation

February

- The Reserve Bank on February 18, 2016, decided in public interest that non-banking finance companies shall not undertake Point of Presence (PoP) services for National Pension System.
- The Reserve Bank on February 18, 2016 revised the threshold for reporting of frauds and submission of quarterly progress reports on frauds.

April

- The Reserve Bank on April 13, 2016 allowed NBFC-MFIs to act as channelising agents for providing loans under special schemes of central/state government agencies to targeted socio-economic sections of the population subject to certain conditions.

June

- The Reserve Bank on June 2, 2016, advised all NBFCs that the instructions issued by erstwhile Department of Banking Operations and Development on refinancing of projects loans with reference to Framework for Revitalising Distressed Assets in the Economy - Refinancing of Project Loans, sale of non-performing assets and other regulatory measures, would be extended to all NBFCs.
- In order to make the process of registration of new Non-Banking Finance Companies (NBFCs) smoother and hassle free, the application form for registration of new NBFCs and the checklist of documents to be submitted have been revised. The number of documents to be submitted by the NBFC applicants has been reduced from existing set of 45 documents to 7-8 in the revised process. Secondly, from June 17, 2016 onwards, there are two different types of applications for non-deposit taking NBFCs (NBFC-ND) based on Sources of Funds and Customer Interface.

Co-operative Banking Regulation

July

- With a view to providing greater flexibility to State and Central Co-operative Banks (StCBs/CCBs), the Reserve Bank on July 14, 2016 advised that StCBs/CCBs can invest in Non-SLR instruments.

**Wish You a Happy
New Year
2017**