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MONETARY AND CREDIT INFORMATION REVIEW

Currency Management

Status Quo Ante on Limits on Cash Withdrawals restored

On a review of the pace of remonetisation, the Reserve Bank on January 30, 2017 decided to partially restore status quo ante as under:

- Limits placed (circulars issued since November 28, 2016) earlier on cash withdrawals from current accounts/ cash credit accounts/ overdraft accounts were withdrawn with immediate effect.
- Limits on savings bank account would continue for the present and were under consideration for withdrawal in the near future.
- Limits placed on cash withdrawals from ATMs were withdrawn from February 01, 2017. However, banks may, at their discretion, have their own operating limits as was the case before November 8, 2016.

Further, banks were urged to encourage their constituents to sustain the movement towards digitisation of payments and switching over of payments from cash mode to non-cash mode.

Earlier, the Reserve Bank on January 16, 2017 had enhanced the withdrawal limits as under:

- The limit on withdrawals from ATMs were enhanced from of ₹ 4,500 to ₹ 10,000 per day per card, operative within the then overall weekly limit;
- The limit on withdrawal from current accounts were enhanced from ₹ 50,000 per week to ₹ 1,00,000 per week and it was extended to overdraft and cash credit accounts also.

(<https://rbi.org.in/Scripts/NotificationUser.aspx?Id=10840&Mode=0>)

(<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10826&Mode=0>)

Allocation of Cash for Rural Areas

The Reserve Bank on January 3, 2017 advised the banks maintaining currency chests to take the following steps:-

Distribution Channels and Proportion of Currency Flow

- Banks should advise their currency chests to step up issuance of fresh notes to rural branches of RRBs, DCCBs and commercial banks, white label ATMs and post offices in rural areas on priority basis which are considered main rural channels of distribution;
- To facilitate a need based approach in distribution of cash in rural areas, a certain percentage of allocation has been assigned to each district depending on the rural and urban mix as the rural requirements could vary from district to district depending on variations in the rural and urban mix of each district in terms of relative shares in CASA deposits and number of deposit accounts.
- Accordingly, all chests operating in a district must issue bank notes to the above mentioned distribution channels as per the indicated proportion. The indicated proportion may be maintained on weekly average basis at each chest level as it may be difficult to stick to the proportion on daily basis.

Reporting for Monitoring

Currency chests must furnish daily issuances to the above categories to their link offices (LO) along with chest slips with a weekly summary as at close of business on every Friday. LOs should in turn forward it to the Reserve Bank's regional office concerned to facilitate a review. It may be similar to the chest balances reporting mechanism. LOs may monitor the daily reports to avoid lumpiness in issuances and to ensure that issuances are evenly.

Denominational Mix

- Chests should issue bank notes in denominations of ₹ 500 and below. Particular ATMs, including white label ATM operators (WLAOs), may be issued ₹ 500s and ₹ 100s and among ATMs category, Off-site ATMs should be allocated higher proportion of cash as against on site ATMs as they are more important in last mile currency connectivity.
- Existing stock of other denominations notes below ₹ 100 should be issued liberally.
- Banks should indent for coins, obtain supply from Issue Departments of the Reserve Bank, if required, and ensure supply to public on priority basis.

Background

On observing that bank notes, being supplied to rural areas, at present, are not commensurate with the requirements of rural population, some steps had been initiated. With a view to ensure that at least 40 percent bank notes are supplied to rural areas and to mitigate the issue in a more enduring manner, these steps have been advised. (<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10814&Mode=0>)

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Facility for Exchange of SBNs during Grace Period

The Reserve Bank on December 31, 2016 introduced a facility for exchange of Specified Bank Notes (SBNs) for the resident and non-resident citizens who could not avail the facility from November 10 to December 30, 2016 on account of their absence from India during the aforementioned period.

Resident Indian citizens who were abroad during November 9, 2016 to December 30, 2016 can avail this facility upto March 31, 2017 and Non Resident Indian citizens who were abroad during November 9, 2016 to December 30, 2016 can avail this facility upto June 30, 2017.

While there is no monetary limit for exchange for the eligible Resident Indians, the limit for NRIs will be as per the relevant FEMA Regulations. (Currently ₹ 25000) They can avail this facility in their individual capacity once during the period on submission of ID documents, such as, Aadhaar number, Permanent Account Number (PAN) etc, and on submission of documentary evidence showing they were abroad during the period and, that they have not availed the exchange facility earlier, customs certificate about import of SBNs by NRIs, etc. No third party tender will be accepted under the facility.

On fulfilment of the terms and conditions and the genuineness of the notes tendered, admissible amount will be credited to the tenderer's KYC compliant bank account. It may be noted that the above facility is available only to those tenderers whose accounts are KYC compliant and those who have not deposited SBNs into their accounts from November 10 to December 30, 2016.

This facility will be available through the Reserve Bank offices at Mumbai, New Delhi, Chennai, Kolkata, and Nagpur. As the above information is available with the banks, these specific offices of the Reserve Bank need to approach the banks for: (i) confirming the KYC status and (ii) information on deposits of SBNs, if any, into the accounts of the tenderers. The banks are, therefore, advised to put in place an arrangement to furnish the required information within seven days from the date of receipt of request. Towards this, the banks may designate an officer in the rank of General Manager as Nodal Officer who may be contacted by the Reserve Bank's Offices.

Indian citizens resident in Nepal, Bhutan, Pakistan and Bangladesh cannot avail this facility.

Any person, aggrieved by the decision of the Reserve Bank may prefer an appeal to the Central Board of the Reserve Bank within fourteen days of the communication of such refusal to him. Such representations may be addressed to the Central Board, Reserve Bank of India, Secretary's Department, Central Office Building, 16th Floor, Shahid Bhagat Singh Marg, Mumbai – 400 001.

(<https://www.rbi.org.in/Scripts/NotificationUser.aspx?id=10808&Mode=0>)

(https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=39107)

Banking Regulation

Prudential Norms on IRAC and Provisioning pertaining to Advances

The Reserve Bank, with regard to dues payable between November 1, 2016 and December 31, 2016, has decided on December 28, 2016 to -

(i) provide 30 days, in addition to the 60 days provided, in the following categories of loans:

- For running working capital accounts (overdraft(OD)/cash credit (CC))/crop loans, with any bank, the sanctioned limit whereof is ₹1 crore or less;

- For term loans for business purposes, secured or otherwise, the original sanctioned amount whereof is ₹1 crore or less, on the books of any bank or any NBFC, including NBFC (MFI). This shall include agriculture loans.

(ii) permit all regulated entities (REs) to defer the down grade of an account that was standard as on November 1, 2016, but would have become NPA for any reason during the period November 1, 2016 to December 31, 2016, by 90 days from the date of such downgrade in the following categories of accounts:

- Running working capital accounts (OD/CC)/crop loans, with any bank, the sanctioned limit whereof is ₹1 crore or less;
- Term loans for business purposes, secured or otherwise, the original sanctioned amount whereof is ₹1 crore or less, on the books of any bank or any NBFC, including NBFC (MFI). This shall include agriculture loans.

The limits are mutually exclusive limits applicable to respective category of loans. The additional time shall only apply to defer the classification of an existing standard asset as substandard and not for delaying the migration of an account across sub-categories of NPA. Dues payable after January 1, 2017 will be covered by the extant instructions for the respective REs.

(<https://www.rbi.org.in/Scripts/NotificationUser.aspx?id=10801&Mode=0>)

Payment and Settlement System

WLAOs - Sourcing of Cash from Retail Outlets

In order to facilitate cash availability for White Label ATM Operators (WLAOs), the Reserve Bank on December 30, 2016 has decided to allow them to source cash from retail outlets subject to following conditions:

- WLAOs shall be solely responsible for the quality and genuineness of currency notes dispensed through their ATMs. Only ATM fit notes shall be used for this purpose;
- WLAOs may enter into bilateral arrangement with retail outlets from where they desire to source cash based on their Board approved policy;
- Liability and disputes, if any, arising out of such arrangements shall be the responsibility of WLAOs;
- WLAOs shall be responsible for resolving customer disputes and shall make good any loss caused to a customer including those on account of fake notes;
- 60 per cent of the cash sourced using such arrangement(s) shall be dispensed through WLAs located in rural and semi-urban areas.

All other extant instructions pertaining to WLAOs remain unchanged.

Background

Following the withdrawal of legal tender characteristics of existing ₹ 500/- and ₹ 1000/- Bank Notes (Specified Bank Notes – SBN), the Reserve Bank issued these instructions as it was brought to the notice of the Reserve Bank that White Label ATM Operators (WLAOs) are having difficulties in sourcing cash from their sponsor bank(s).

(<https://www.rbi.org.in/Scripts/NotificationUser.aspx?id=10805&Mode=0>)

AFA for Card Not Present Transactions relaxed

The Reserve Bank on December 6, 2016 has relaxed the additional factor of authentication (AFA) requirement for transactions upto ₹ 2000/- for online card not present (CNP) transactions for the 'payment authentication solutions' provided by authorised card networks with

the participation of respective card issuing and acquiring banks. The advice came after the Reserve Bank received requests from certain segments of the industry for reviewing the requirement of AFA for low value online card not present (CNP) transactions.

Background

The Reserve Bank has been taking a number of initiatives with the involvement of all stake holders to enhance safety and efficiency of the retail payment systems. In this regard, various instructions have been issued from time to time on security and risk mitigation measures involving card transactions, including directions on online alerts and additional factor of authentication. These measures have contributed to increased customer confidence in using card payments.

(<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10766&Mode=0>)

Internal Debt Management

Procedural Guidelines for servicing SGBs

From the experience of issuance of the bonds so far, and in the interest of operational flexibility and ease in servicing the customers, the Reserve Bank on December 23, 2016 has decided to issue Procedural Guidelines to the "Receiving Offices" (in case of bonds held in the form of stock certificates in Reserve Bank's books) and Depositories/Depository Participants (in case of dematerialized bonds), in addition to entrusting them with the responsibility of performing certain functions relating to servicing of the bonds.

Any non-compliance shall invite penal provisions.

Background

The Sovereign Gold Bonds(SGBs) are issued by the Government of India in the form of Government of India (GOI) Stock and administered by the Reserve Bank of India. So far, six tranches of the Sovereign Gold Bond Scheme have been issued. Following notification of each tranche by GOI, operational instructions are issued by the Reserve Bank of India to the "Receiving Offices", for processing the applications.

(<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10792&Mode=0>)

Financial Inclusion and Development

Sanction of Additional Working Capital Limits to MSEs

The Reserve Bank on December 29, 2016 advised banks to use the facility of providing 'additional working capital limit' (approved by their boards as above) to their micro and small enterprises (MSEs) borrowers, to overcome the difficulties arising out of cash flow mismatches. This would be a onetime measure up to March 31, 2017 and should thereafter be normalised in fresh working capital assessment cycle.

Consequent upon withdrawal of legal tender status of SBN of ₹ 500 and ₹ 1000 denominations and based on feedback that some MSEs are facing temporary difficulties in carrying out their normal business due to cash flow mismatches, the Reserve Bank reviewed and issued revised instructions.

Background

Banks were advised, inter alia, to incorporate with their Boards' approval, in their lending policy to MSEs, a clause for fixing a separate additional limit, at the time of sanction / renewal of working capital limits, specifically for meeting the temporary increase in working capital requirements arising mainly due to unforeseen / seasonal increase in demand for products produced by them. Banks have since confirmed having put such a policy in place.

(<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10803&Mode=0>)

Foreign Exchange Management

Indian Party from making Direct Investment prohibited

In order to align the instructions with the objectives of Financial Action Task Force (FATF), the Reserve Bank on January 25, 2017, on a review, has decided to prohibit an Indian party from making direct investment in an overseas entity (set up or acquired abroad directly as Joint Venture/Wholly Owned Subsidiary (JV/ WOS) or indirectly as step down subsidiary located in the countries identified by the FATF as "non co-operative countries and territories".

At present, there is no restriction on an Indian party with regard to the countries, where it can make Overseas Direct Investment.

(<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10839&Mode=0>)

Transfer or Issue of Any Foreign Security amended

The Reserve Bank on January 17, 2016 has decided to make the following amendments in the Foreign Exchange Management (Transfer or Issue of Any Foreign Security) Regulations, 2004:-

In the Principal Regulations after the existing clause, the following shall be inserted, namely:

"Indian Party shall make no direct investment in an overseas entity [set up or acquired abroad directly as JV/WOS or indirectly as Step Down Subsidiary] located in the countries identified by the Financial Action Task Force (FATF) as "non co-operative countries and territories" as per list available on FATF website www.fatf-gafi.org or as notified by the Reserve Bank of India from time to time."

(<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10822&Mode=0>)

Transfer or Issue of Security by a Person Resident outside India amended

The Reserve Bank on January 10, 2017 has made the following amendments in the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2000:-

Amendment to Regulation:

In the Principal Regulations a new clause shall be inserted namely:-

" 'Convertible Note' means an instrument issued by a start-up company evidencing receipt of money initially as debt, which is repayable at the option of the holder, or which is convertible into such number of equity shares of such start-up company, within a period not exceeding five years from the date of issue of the convertible note, upon occurrence of specified events as per the other terms and conditions agreed to and indicated in the instrument;"

Insertion of a New Regulation:

In the amended version, the following new regulation has been inserted-

Issue of Convertible Notes by Start-up Companies

- A person resident outside India (other than an individual who is citizen of Pakistan or Bangladesh or an entity which is registered / incorporated in Pakistan or Bangladesh), may purchase convertible notes issued by an Indian start-up company for an amount of twenty five lakh rupees or more in a single tranche.

Explanation: For the purpose of this Regulation, a 'start-up company' means a private company incorporated under the Companies Act and recognised by the Department of Industrial Policy and Promotion, Ministry of Commerce and Industry.

- A start-up company engaged in a sector where foreign investment requires Government approval may issue convertible notes to a non-resident only with approval of the Government.

Explanation: For the purpose of this regulation, the issue of shares against such convertible notes shall have to be in accordance with the Schedule 1 of the Principal Regulations.

- A start-up company issuing convertible notes to a person resident outside India shall receive the amount of consideration by inward remittance through banking channels or by debit to the NRE / FCNR (B) / Escrow account maintained by the person concerned in accordance with the Foreign Exchange Management (Deposit) Regulations, 2016, as amended from time to time.

Provided that an escrow account for the above purpose shall be closed immediately after the requirements are completed or within a period of six months, whichever is earlier. However, in no case continuance of such escrow account shall be permitted beyond a period of six months.

- NRIs may acquire convertible notes on non-repatriation basis in accordance with the Principal Regulations.
- A person resident outside India may acquire or transfer, by way of sale, convertible notes, from or to, a person resident in or outside India, provided the transfer takes place in accordance with the pricing guidelines as prescribed by RBI. Prior approval from the Government shall be obtained for such transfers in case the startup company is engaged in a sector which requires Government approval.
- The start-up company issuing convertible notes shall be required to furnish reports as prescribed by Reserve Bank.

(<https://www.rbi.org.in/Scripts/NotificationUser.aspx?id=10825&Mode=0>)

Evidence of Import under IDPMS

In order to enhance ease of doing business and reduce transaction costs, the Reserve Bank on January 12, 2017 has discontinued submission of hardcopy of Evidence of Import documents which is, Bill of Entry (BoE), with effect from December 1, 2016, as it is available in Import Data Processing and Monitoring System (IDPMS). The revised procedure is :

- AD Category – I bank will enter BoE details (BoE number, port code and date) as received from the importer and download the BoE message data from "BOE Master" in IDPMS. Thereafter, match and settle the BoE data with Outward Remittance Message (ORM) associated with the payment for import as per the message format "BOE Settlement" in IDPMS. Multiple ORMs can be settled against single BoE and also multiple BoE(s) can be settled against one ORM.
- In respect of imports on 'Delivery against Acceptance' basis, on request of importer, AD Category – I bank shall verify the evidence of import from IDPMS at the time of effecting remittance of import bill.

- On settlement of ORM with evidence of import AD Category – I bank shall in all cases issue an acknowledgement slip to the importer containing the following particulars:

- (i) importer's full name and address with code number ;
- (ii) number and date of BoE and the amount of import; and
- (iii) a recap advice on number and amount of BoE and ORM not settled for the importer.

- The importer needs to preserve the printed 'Importer copy' of BoE as evidence of import and acknowledgement slip for future use.

The extant instructions and guidelines for "Evidence of Import in Lieu of Bill of Entry" will apply mutatis mutandis. The evidence of import in lieu of BoE in permitted/approved conditions will be created and uploaded by AD Category – I bank of the importer in the form of BoE data as per message format "Manual BOE reporting" in IDPMS.

Follow-up for Evidence of Import

AD Category – I banks shall continue to follow up for outward remittance made for import (i.e. unsettled ORM) in terms of extant guidelines and instructions on the subject. In cases where relevant evidence of import data is not available in IDPMS on due dates against the ORM, AD Category – I bank shall follow up with the importer for submission of documentary evidence of import. Similarly, if BoE data is not settled against ORM within the prescribed period AD Category – I banks shall follow up with the importer in terms of extant instructions.

Verification and Preservation

Internal inspectors and IS auditors (including external auditors appointed by AD Category – I bank) should carry out verification and IS audit and assurance of the "BOE Settlement" process in IDPMS. Data and process followed by AD Category – I bank for "BOE Settlement" should be preserved in terms of the guidelines under Cyber Security Framework in the bank. However, in respect of cases which are under investigation by investigating agencies, the data, process and/or documents may be destroyed only after obtaining clearance from the investigating agency concerned.

Background

Bill of Entry (BoE) data is received in IDPMS from Customs Department for EDI ports and from NSDL for SEZ on daily basis. BoE data for non-EDI ports are entered by AD Category – I bank of the importer on receipt of BoE (importer's copy) and then the bank uploads the data in IDPMS through "Manual BOE reporting" process.

(<https://www.rbi.org.in/Scripts/NotificationUser.aspx?id=10824&Mode=0>)

Purchase and Sale of Securities

With a view to providing flexibility in regard to the manner in which non-convertible debentures/bonds issued by Indian companies can be acquired by Foreign Portfolio Investors (FPIs), the Reserve Bank on December 28, 2016 has decided to allow them to transact in such instruments either directly or in any manner as per the prevalent/approved market practice.

(<https://www.rbi.org.in/scripts/NotificationUser.aspx?id=10800&Mode=0>)