



Volume X ♦ Issue 9
March 2014

MONETARY AND CREDIT INFORMATION REVIEW

POLICY

Framework for Revitalising Distressed Assets

The Reserve Bank, on February 26, 2014, has issued certain guidelines regarding the “Framework for Revitalising Distressed Assets in the Economy”. They are:

I. *Refinancing of Project Loans*

The Reserve Bank has advised that if the banks/lenders refinance any existing infrastructure and other project loans by way of take-out financing, even without a pre-determined agreement with other banks/Financial institutions, and fix a longer repayment period, the project loan refinancing would not be considered as restructuring subject to certain conditions.

II. *Sale of Financial Assets to SCs/RCS*

With a view to incentivising banks to recover appropriate value in respect of their non performing assets (NPAs) promptly, banks can now reverse the excess provision on sale of NPA if the sale is for a value higher than the net book value (NBV) (i.e., book value less provisions held) to its profit and loss (P&L) account in the year the amounts are received. Further, as an incentive for early sale of NPAs, banks can spread over any shortfall, if the sale value is lower than the NBV, over a period of two years. The Reserve Bank has also advised that the banks using auction process for sale of NPAs to Securitisation Companies(SCs)/Reconstruction Companies(RCs), should be more transparent, including disclosure of the Reserve Price, specifying clauses for non-acceptance of bids, etc.

III. *Purchase/Sale of NPAs to Other Banks*

The Reserve Bank has advised that banks will be permitted to sell their Non-Performing Financial Assets (NPAs) to other banks/FIs/Non-Banking Finance Companies (NBFCs) (excluding SCs/RCS) without any initial holding period. However, the non-performing financial asset should be held by the purchasing bank in its books at least for a period of 12 months before it is sold to other banks/financial institutions/NBFCs (excluding SCs/RCS).

IV. *Use of Counter-cyclical/Floating Provisions*

Banks can now use counter-cyclical/floating provisions for meeting any shortfall on sale of NPA, i.e., when the sale is at a price below the NBV (i.e., book value less provision held), which presently requires debit to the profit and loss account.

V. *Bank Loans for Financing Promoters' Contribution*

Banks can now extend finance to ‘specialised’ entities subject to select guidelines applicable to advances against shares/debentures/bonds and other regulatory and statutory

exposure limits. The lenders should, however, assess the risks associated with such financing and ensure that these entities are adequately capitalised, and debt equity ratio for such entity is not more than 3:1.

The guidelines regarding “Framework for Revitalising Distressed Assets in the Economy” also include regulatory issues like, credit risk management; reinforcement of regulatory instructions by the Reserve Bank issued from time to time; registration of transactions relating to securitisation and reconstruction of financial assets and those relating to mortgage by deposit of title deeds to secure any loan or advances granted by banks and financial institutions, as defined under the SARFAESI Act, in the Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI); and Board Oversight.

CONTENTS

Page

POLICY

Framework for Revitalising Distressed Assets	1
Depositor Education and Awareness Fund	2
Downloaded E-Aadhaar recognised as Valid Document	2
Withdrawal of Pre-2005 Series Banknotes	2
Reporting of Information Security Incidents	2
End of Support for Windows XP	2
Call/Notice Money Market Operations	2
LDMs to convene Pre-PLP meetings in June	2
Bank Loans to MFIs	2

FEMA

EDPMS for better monitoring of Exports	3
Increase in Trade related Remittance Limit	3
‘Direct to Account’ facility under MTSS	3
Reporting of Secondary Market OTC Transactions	3

REPORTS/COMMITTEES/CONCEPT PAPERS

Report on furnishing of Credit Information to CICs	4
Concept Paper on Trade Receivables and Credit Exchange for Financing MSMEs	4
Committee on Capacity Building in Banking Sector	4

Depositor Education and Awareness Fund Scheme

The Reserve Bank has advised all banks to be in readiness to take necessary action as “The Depositor Education and Awareness Fund (the Fund) Scheme 2014” has been finalised and forwarded to the Government of India for notifying in the Official Gazette. The operational guidelines would be advised separately as soon as the Scheme is notified. The Reserve Bank has also advised all banks to designate a single contact point for any correspondence/queries in connection with the ‘Depositor Education and Awareness Fund Scheme, 2014’.

Under the Scheme, the amount to the credit of any account in India with any bank which has not been operated upon for a period of ten years or any deposit or any amount remaining unclaimed for more than ten years, shall be credited to the Fund, within a period of three months from the expiry of the period of ten years. The Fund shall be utilised for promotion of depositors’ interest and for such other purposes which may be necessary for the promotion of depositors’ interests as specified by the Reserve Bank from time to time. The depositor would, however, be entitled to claim from the bank her deposit or any other unclaimed amount or operate her account after the expiry of ten years, even after such amount has been transferred to the Fund. The bank would be liable to pay the amount to the depositor/claimant and claim refund of such amount from the Fund.

Downloaded E-Aadhaar recognised as Valid Document

The Reserve Bank, on March 4, 2014, has advised the banks to accept e-Aadhaar downloaded from the website of the Unique Identification Authority of India (UIDAI) as an officially valid document subject to certain conditions. Banks are also advised to note that physical Aadhaar card/letter issued by UIDAI containing details of name, address and Aadhaar number received through post and e-KYC process, would continue to be accepted as an ‘Officially Valid Document’.

Withdrawal of Pre-2005 Series Banknotes

The Reserve Bank, on March 3, 2014, has extended the date for exchanging the pre-2005 banknotes to January 1, 2015. The Reserve Bank has also advised banks to facilitate the exchange of these notes for full value without causing any inconvenience whatsoever to the public. These notes will retain their legal tender status and the public can continue to use these for any transaction/payment.

The Reserve Bank has also advised banks to issue suitable instructions to all their branches to provide exchange facilities to members of public and to stop re-issue of the pre- 2005 series banknotes. Banks are also advised to ensure that these notes are not dispensed through the ATMs/over the counters. The methodology to be followed for dealing with the Pre-2005 series banknotes remains unchanged. The Reserve Bank has further provided a list of dos and don’ts for the guidance of the banks.

Please see frequently asked questions on “Pre-2005 Series Banknotes” dated March 10, 2014 available on the RBI website (www.rbi.org.in) under FAQs.

Reporting of Information Security Incidents

The Reserve Bank, on February 26, 2014, has advised the Chief Information Security Officers (CISOs) of banks, to report all Information Security related incidents on the Security Incident Tracking Platform, developed by the Institute for Development and Research in Banking Technology (IDRBT). The Platform would enable banks to report security incidents in an anonymous manner; thus keeping the information reported by the banks confidential. This would not only facilitate building a repository of security incidents related information for the banking Industry but also help in fine-tuning policies relating to information security from time to time.

The platform will be hosted on the Indian Financial Network (INFINET) and the access would be provided only to the CISOs of respective banks. IDRBT is simultaneously making arrangements to gather global threat intelligence from various sources in coordination with CERT-In.

End of Support for Windows XP

The Reserve Bank, on March 19, 2014, has advised the commercial banks to take immediate steps to implement appropriate systems and controls in their systems including ATMs, that are still working on Windows XP. The instruction was given as it was learnt that Microsoft will stop issuing updates and patches for bugs in its Windows XP operating system (released in 2001) from April 8, 2014. In this scenario, the probability of attacks on such a system may increase and it may be difficult to defend such attacks in the absence of Microsoft support.

Call/Notice Money Market Operations

The Reserve Bank, on February 26, 2014, has advised commercial banks/co-operative banks and primary dealers to convey the prudential limits for borrowing/lending in call/notice money market, fixed with the approval of their respective Boards, to the Clearing Corporation of India Ltd. (CCIL) for setting of limits in NDS-CALL System, under advice to Financial Markets Department, Reserve Bank of India. This is in effect from March 3, 2014.

The earlier practice of banks/PDs/co-operative banks approaching the Reserve Bank for fixing of prudential limits for transactions in Call/Notice Money Market is thus discontinued.

LDMs to convene Pre-PLP meetings in June

The Reserve Bank, on March 14, 2014, has advised all the lead banks to henceforth ensure that the Lead District Managers (LDMs) convene the pre-Potential Linked Plan (PLP) meetings during June every year. Earlier, all scheduled commercial banks including regional rural banks were advised to arrange to convene the pre-PLP meetings by LDMs during August/September every year. The modification was made as the Potential Linked Plans (PLPs) are now finalised by August every year.

Bank Loans to MFIs

The Reserve Bank, on March 12, 2014, has advised the banks to ensure micro finance institutions (MFIs) comply with the cap on individual loans and margin cap, as prescribed, for being eligible to be classified as the loans under priority sector.

FEMA**EDPMS for better monitoring of Exports**

A comprehensive IT-based system called Export Data Processing and Monitoring System (EDPMS) has been operationalised with effect from February 28, 2014, for better monitoring of export of goods and software and facilitating authorised dealer (AD) banks to report various returns through a single platform. Dr. Raghuram Rajan, Governor, Reserve Bank of India inaugurated the system. Apart from making the regulatory and supervisory process effective for monitoring the export transactions, it is a major green initiative as paper reporting requirement will be eliminated to a substantial extent. AD banks, with effect from March 1, 2014, can use web link (<https://edpms.rbi.org.in/edpms>) for accessing the system. The user credentials for accessing the system have already been shared with the AD banks.

The Reserve Bank, on February 28, 2014, had advised the AD banks to report their entire shipping documents in the new system. The old shipping documents would continue to be reported in the old system till completion of the cycle. Both the old and new systems will run simultaneously for some time before the old system is discontinued.

Increase in Trade related Remittance Limit

The Reserve Bank has increased the limit of trade transactions from the existing Rs. 2,00,000/- (Rupees Two Lakh only) per transaction to Rs. 5,00,000/- (Rupees Five Lakh only) per transaction, with effect from March 13, 2014. The decision to increase the limit was taken after a review of the permitted transactions under the Rupee Drawing Arrangements (RDAs).

'Direct to Account' facility under MTSS

The Reserve Bank has allowed transfer of foreign inward remittances received under Money Transfer Service Scheme (MTSS) to the Know Your Customer (KYC) compliant beneficiary bank account through electronic mode, such as, National Electronic Funds Transfer (NEFT), Immediate Payment Service (IMPS), as per the prescribed procedure. The decision was taken to facilitate receipt of foreign inward remittances directly into bank account of the beneficiary. For details, please see A.P.(DIR) circular on "Money Transfer Service Scheme - 'Direct to Account' facility" dated March 4, 2014 in the Notifications section on RBI website (www.rbi.org.in).

Reporting of Secondary Market OTC Transactions

The Reserve Bank, on February 24, 2014, has advised all entities regulated by the Reserve Bank to report their secondary market Over the Counter (OTC) trades in corporate bonds and securitised debt instruments within 15 minutes of the trade on any of the stock exchanges - National Stock Exchange (NSE), Bombay Stock Exchange (BSE) and MCX Stock Exchange (MCX-SX), with effect from April 1, 2014. These trades may be cleared and settled through any of the clearing corporations - National Securities Clearing Corporation Ltd. (NSCCL), Indian Clearing Corporation Limited (ICCL) and MCX-SX Clearing Corporation Ltd. (MCX-SX CCL).

Reports/Committees/Concept Papers**Report on furnishing of Credit Information to CICs**

The Reserve Bank, on March 22, 2014, released the Report of the Committee to recommend Data Format for Furnishing of Credit Information to Credit Information Companies (CICs)" on its website (www.rbi.org.in) for public comments. Comments may please be emailed or sent by post to Chief General Manager, Department of Banking Operations and Development, Reserve Bank of India, Shahid Bhagat Singh Marg, Mumbai 400 001 on or before March 31, 2014.

The committee has made wide ranging recommendations on issues relating to credit information, such as, increasing its coverage, format of reports and best practices to be followed by credit institutions, credit information companies (CICs) and the Reserve Bank.

Making credit information more useful

The committee has stated that low usage of credit information by member institutions and other specified users needs to be addressed by requiring CICs to populate their databases with requisite credit information so that enquiries by specified users yield desired information. It has recommended that this can be done by increasing the coverage of credit information in terms of membership (all credit institutions should be members of all CICs) and products (also covering defaults in CPs and such other products) and by creating awareness about Credit Information Reports (CIRs).

The Committee has further suggested that providing customers with a free copy of their CIRs would help create awareness about the need to have credit discipline, enable customers to correct their behaviour and improve their score well before they plan to avail fresh credit of any kind, help detect identity theft at an early stage, help CICs correct and validate their database and increase their business in the long run. Use of common data formats, including additional information in the formats, such as, dispute codes, consumer comments on dispute, details of collateral, etc., and to institutionalise a continuing mechanism for making changes to data formats could help improve data quality, the committee has pointed out. The committee has recommended a common Data Quality Index that could assist credit institutions in determining the gaps in their data and also move towards improving their performance over a period of time.

Background

The Second Quarter Review of Monetary Policy 2012-13, (October 2012) of the Reserve Bank of India had stated that credit institutions should furnish timely and accurate credit information on their borrowers and make extensive use of available credit information as a part of their credit appraisal process. The post-policy meeting of the Reserve Bank with bankers in October 2012 had emphasised on the need for standardisation of data collection format as well as harmonisation/convergence among CICs to minimise duplication. The Reserve Bank later also met the heads of CICs in which it was suggested that a committee comprising a few banks, CICs and the Indian

Banks' Association be set up to finalise an updated data format. The committee was then set up with the heads of the CICs, a representative each from private sector bank, nationalised bank, foreign bank, urban cooperative bank, Non-Banking Financial Company (NBFC), Micro Finance Institution (MFI), Indian Banks' Association (IBA) and the Legal Department of the Reserve Bank as members. Shri Aditya Puri, Chairman, HDFC Bank acted as the Chairman while Shri Rajesh Verma, CGM, DBOD was its member secretary. The committee recently submitted its report to the Reserve Bank.

Concept Paper on Trade Receivables and Credit Exchange for Financing MSMEs

The Reserve Bank, on March 19, 2014, has sought feedback on the Concept Paper on "Trade Receivables and Credit Exchange for Financing Micro, Small and Medium Enterprises (MSMEs)". Comments may be emailed or sent by post to the Chief General Manager, Department of Payment and Settlement Systems, Reserve Bank of India, Central Office, 14th Floor, Shahid Bhagat Singh Marg, Mumbai-400001 on or before April 20, 2014. The concept paper is available on RBI website (www.rbi.org.in).

Background:

Given the potential of MSMEs in unlocking growth, employment and inclusion in the economy and society, there is a pressing need to address concerns related to financing of this segment.

Despite efforts on multiple fronts as well as enabling legal and regulatory provisions, the MSME segment continues to be belaboured with the problem of delayed payments and dependency on their corporate buyer/s.

The matter has been addressed in the reports of the Committee on Financial Sector Reforms (2008) as well as the Working Group on Securitisation of Trade Receivables (2009). The reports had recommended having an institutional infrastructure for creating necessary liquidity for trade receivables through a mechanism of efficient and cost effective factoring/reverse factoring process. The statement made by the Governor on September 04, 2013 regarding facilitation of Electronic Bill Factoring Exchanges in the country, has drawn the attention of many stakeholders in the country in offering their expertise and experience in this area to facilitate building of suitable infrastructure for MSME financing.

This concept paper has been prepared taking into account the interest expressed by few entities and in consultation with a few stakeholders. The model outlined in the paper envisages both, primary market segment (in which invoices first undergo a reverse factoring process to enable the first level of financing to the MSMEs) as well as a secondary market segment (where the financiers of the primary segment get an opportunity to trade these invoices).

It is also imperative to understand and address the issues and challenges outlined through wider consultation process. To this end, the Reserve Bank has sought views on the concept paper on Trade Receivables and Credit Exchange in the country. Specific and actionable feedback would be highly valued.

Committee on Capacity Building in Banking Sector

The Reserve Bank, on February 20, 2014, has constituted a Committee to examine the Financial Sector Legislative Reforms Commission (FSLRC) Recommendations relating to Capacity Building in Banking Sector. The Committee will deliberate on the following terms of reference:

- Identify capacity building requirements keeping in view the role of financial sector and what it should deliver,
- Examine the skills required at various levels/operations to deliver on the required role,
- Identify qualifications relevant to specific areas of operation in banks and non-banks,
- Evolve methodologies for prescribing certification for required qualifications,
- Examine if the members on bank boards also need to be certified - by way of say, an appropriately designed course which could be made mandatory for every individual before appointment to the board of a bank.

The Committee is expected to submit its recommendations by April 30, 2014.

Statement about ownership and other particulars concerning MONETARY AND CREDIT INFORMATION REVIEW

Form IV

- | | |
|--|--|
| 1. Place of publication | : Mumbai |
| 2. Periodicity of publication | : Monthly |
| 3. Editor, publisher and printer's name, nationality and address | : Alpana Killawala
Indian
Reserve Bank of India
Department of Communication
Central Office,
Shahid Bhagat Singh Road,
Mumbai 400 001 |
| 4. Names and addresses of individuals who own the Newspaper | : Reserve Bank of India
Department of Communication
Central Office, Shahid Bhagat Singh Road, Mumbai 400 001 |

I, Alpana Killawala, hereby declare that the particulars given above are true to the best of my knowledge and belief.

Sd/-

Alpana Killawala

Signature of Publisher

Date: March 1, 2014