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Contents

Sections	Page
I Foreign Exchange Management	1
II. Currency Management	2
III. Financial Markets	2
IV. Non-Banking Regulation	2
V. Payment & Settlement Systems	3
VI. Internal Debt Management	4
VII. RBI Kehta Hai	4
VII. Research	4

Note from the Editor

Welcome to yet another edition of the Monetary and Credit Information Review (MCIR). This monthly periodical of the RBI helps keep abreast with new developments and important policy initiatives taken by the RBI in the world of money and credit. MCIR can be accessed at https://mcir.rbi.org.in.

Through this communication tool, we aim to share information, educate, and stay in touch while ensuring accuracy and consistency in disseminating information.

We welcome your feedback at mcir@rbi.org.in.

Yogesh Dayal
Editor

Developing Vibrant Capital Markets in Emerging Market Economies

The Reserve Bank of India (RBI) held a symposium on 'Developing Vibrant Capital Markets in Emerging Market Economies' at its Central Office Building in Mumbai on May 29, 2019. Governor, Shri Shaktikanta Das, inaugurated the symposium. In his opening remarks he highlighted the falling saving and investment rates in the economy and the role that the capital markets play in arresting this trend. He pointed out that capital markets enable economic agents to pool, price, share and exchange risks. Dr. Ryan Banerjee, a senior economist at the Bank for International Settlements (BIS) presented the highlights of the report on 'Establishing Viable Capital Markets' made by the Committee on the Global Financial System (CGFS). The committee was co-chaired by Dr. Viral V. Acharya, Deputy Governor, RBI and Dr. Li Bo of the People's Bank of China. A panel discussion was also held on 'What more will it take for Capital Markets in Emerging Markets and Advanced Economies' to converge in a Globalised World'. Panelists Dr. John Clark, Federal Reserve Bank of New York; Shri Ridham Desai, Morgan Stanley; Dr. Ryan Banerjee, BIS; Shri T. Rabi Shankar, RBI and Dr. Mridul Saggar, RBI (moderator) took part in the discussion.

I. FOREIGN EXCHANGE MANAGEMENT

I.a Voluntary Retention Route for Investments by FPIs

The Reserve Bank of India has opened the revised scheme of Voluntary Retention Route (VRR) for Investments by Foreign Portfolio Investors (FPIs) w.e.f. May 27, 2019 as per the following details:

a. The investment limit shall be ₹54,606.55 crore, under the VRR–Combined category, to allow investment in both government securities and corporate debt.

B. The minimum retention period shall be three years. During this period, FPIs shall maintain a minimum of 75 per cent of the allocated amount in India.

c. Investment limits shall be available 'on tap' and allotted on 'first come, first served' basis.

d. The 'tap' shall be kept open till the limit is fully allotted or till December 31, 2019, whichever is earlier.

e. FPIs may apply for investment limits online to Clearing Corporation of India Ltd. (CCIL) through their respective custodians.

f. CCIL will separately notify the operational details of application and allotment.

g. FPIs that were allotted investment limits under the tap that was open during March 11- April 30, 2019, may, at their discretion, opt to convert their full allotment to 'VRR-Combined' by advising CCIL through their custodians. Such conversions shall not use up the investment limit of ₹54,606.55 crore indicated in para (a) above.

https://rbi.org.in/Scripts/NotificationUser.aspx?Id=11561&Mode=0

II. CURRENCY MANAGEMENT

II.a Incentive for improving service to non-chest branches

As a measure towards incentivising modern Currency Chests (CCs) for improving service to non-chest branches, the Reserve Bank has decided to allow them to increase the service charges levied by them on cash deposited by non-chest bank branches from the existing rate of ₹5 per packet of 100 pieces to a higher rate of maximum ₹8/- per packet. For this purpose, only a CC fulfilling the minimum standards as detailed in our circular RBI/2018-19/166 DCM (CC) No.2482/03.39.01/2018-19 dated April 08, 2019 shall be eligible to be classified as a large modern Currency Chest. Banks may approach the Issue Office of the Reserve Bank under whose jurisdiction the CC is located for such classification. The increased rates can be charged only after such classification by the concerned Issue Office of the Reserve Bank of India. Banks may also refer to refer to circular RBI/2015-16/293 DCM (NPD) No.2564/09.40.02/2015-16 dated January 21, 2016 for additional information.

III. FINANCIAL MARKETS

III.a Task Force on Development of Secondary Market for Corporate Loans

The Reserve Bank of India constituted a Task Force on the development of secondary market for corporate loans under the chairmanship of Shri T.N. Manoharan, Chairman, Canara Bank, on May 29, 2019. The decision to constitute the task force was announced in the Statement on Developmental and Regulatory Policies issued along with the first bi-monthly monetary policy for the year 2019-20 on April 4, 2019. The Task Force has been constituting realising the need for a formalised mechanism to deepen the secondary market and the significance of a well-developed secondary market for greater transparency of inherent riskiness of the debt being traded. Such price discovery is expected to spur innovations in the securitisation market as well as invigorate dormant markets such as Corporate Default Swaps (CDS). For further details of the Task Force please click here.

III.b Committee on the Development of Housing Finance Securitisation Market

The Reserve Bank of India constituted a Committee on the development of Housing Finance Securitisation Market under the chairmanship of Dr. Harsh Vardhan on May 29, 2019. The decision to constitute the task force was announced in the Statement on Developmental and Regulatory Policies issued along with the first bi-monthly monetary policy for the year 2019-20. The mortgage securitisation market in India is primarily dominated by direct assignments among a limited set of market participants on account of various structural factors impacting both the demand and the supply side, as well as certain prudential, legal, tax and accounting issues. It is imperative that the market moves to a broader issuance model with suitable structuring of the instruments for diverse investor classes in order to ensure a vibrant securitisation market. The committee has been constituted keeping in view all such issues. More details about the committee can be found by clicking here.

III.c Safe Custody of RBI's Gold Reserves

The Reserve Bank on May 3, 2019 clarified that the gold reserves being maintained by it are in safe custody and no gold was shifted by the RBI from India to other countries in 2014 or thereafter. Certain sections of the print and social media had reported about RBI shifting abroad a part of its gold holding in 2014. The media reports are factually incorrect. It is a normal practice for Central Banks world over, to keep their gold reserves overseas with Central Banks of other countries like Bank of England for safe custody.

IV. NON-BANKING REGULATION

IV.a Liquidity Risk Management Framework for NBFCs

The Reserve Bank of India placed on its website a draft circular on "Liquidity Risk Management Framework for Non-Banking Financial Companies (NBFCs) and Core Investment Companies (CICs) to be adopted by all deposit taking NBFCs; non-deposit taking NBFCs with an asset size of ₹100 crore and above; and all CICs registered with the Reserve Bank. The draft circular proposes to introduce Liquidity Coverage Ratio (LCR) for all deposit taking NBFCs with an asset size of ₹5000 crore and above. While some of the current regulatory prescriptions applicable to NBFCs on ALM framework have been updated or recast, certain new features have also been added. To ensure a smooth transition to the LCR regime, it is proposed to implement the new framework in a calibrated manner through a glide path over a period of four years commencing from April 2020 and going upto April 2024. Public comments have been sought from various stakeholders such as NBFCs, market participants, etc., on the draft framework for consideration before issuing final guidelines. The last date for submitting responses is June 14, 2019. Details can be found by clicking here.

IV.b Chief Risk Officer for NBFCs

The Reserve Bank of India has decided that, since the Non-Banking Financial Companies (NBFCs) play an important role in direct credit intermediation, NBFCs with asset size of more than ₹50 billion shall appoint a Chief Risk Officer (CRO) with clearly specified roles and responsibilities. The CRO will function independendently to ensure highest standards of risk management. The Reserve Bank has also listed out guidelines for appointment of CRO. As per the guidelines, the CRO shall be a senior official in the hierarchy of an NBFC and shall possess adequate professional qualification/experience in the area of risk management. The CRO shall be appointed for a fixed tenure with the approval of the Board and can be transferred/removed from his post before completion of the tenure only with the approval of the Board. Any premature transfer/ removal shall be reported to the Department of Non-Banking Supervision of the Regional Office of the RBI under whose jurisdiction the NBFC is registered. In case the NBFC is listed, any change in incumbency of the CRO shall also be reported to the stock exchanges. For detailed contained in the circular click here. The Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 has also been modified accordingly.

IV.c Relaxation of Guidelines to NBFCs on Securitisation Transactions

In order to encourage NBFCs to securitise/assign their eligible assets, Reserve Bank of India had vide circular DNBR (PD) CC.No.95/03.10.001/2018-19 dated November 29, 2018 had decided to relax 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 installments or two quarterly installments (as applicable), subject to the following prudential requirements:

- The Minimum Retention Requirement (MRR) for such securitisation/assignment transaction shall be 20 per cent of the book value of the loan being securitised/twenty per cent of the cash flows from the asset assigned.
- It has now been decided to extend the relaxation on the guidelines contained in the above-mentioned circular for a further period till December 31, 2019. For further details please click here

V. PAYMENT & SETTLEMENT SYSTEMS

V.a Payment and Settlement Systems in India: Vision 2019- 21

The Reserve Bank of India placed released on its website the ''Payment and Settlement Systems in India: Vision 2019-21" document on May 15, 2019. The Payment Systems Vision 2019-21 aims at empowering every Indian with access to a bouquet of e-payment options that is safe, secure, convenient, quick and affordable. It envisages to achieve a highly digital and cash-lite society through the goal posts of 4Cs – Competition, Cost effectiveness, Convenience and Confidence. The Vision 2019-21 document is placed on the Reserve Bank's website and can be accessed by clicking here.

V.b Committee on Deepening of Digital Payments

The high-level Committee on Deepening of Digital Payments constituted by the Reserve Bank of India in January 2019 under the chairmanship of Shri Nandan Nilekani, submitted its report to the Governor, Reserve Bank of India on May 17, 2019. The Committee submitted its report after holding deliberations and consultations with various stakeholders. The Reserve Bank will examine the recommendations of the committee and dovetail the action points wherever needed in its Payment Systems Vision 2021, released on May 15, 2019.

V.c RTGS – Extension of Timings for Customer Transactions

The Reserve Bank of India has decided to extend the timings for customer transactions (initial cut-off) in RTGS from 4.30 pm to 6.00 pm. Accordingly, the RTGS time window with effect from June 01, 2019. For more details please click here.

VI. INTERNAL DEBT MANAGEMENT

Government of India, in consultation with the Reserve Bank of India, has decided to issue Sovereign Gold Bonds. The Sovereign Gold Bonds will be issued every month from June 2019 to September 2019. The Bonds will be sold through Scheduled Commercial banks (except Small Finance Banks and Payment Banks), Stock Holding Corporation of India Limited (SHCIL), designated post offices, and recognised stock exchanges viz., National Stock Exchange of India Limited and Bombay Stock Exchange Limited. Details such as calendar of issue and features of the bond can be found by clicking here

VII. RBI Kehta Hai

As part of its latest awareness initiative, RBI has come out with a series of awareness messages on the theme of Banking Ombudsman to make people aware of the various grievance redressal mechanisms available to them as Bank Customers. Through our public awareness campaign **'RBI Kehta Hai'**, we also aim to make the people aware of good and safe banking practices to be adopted by them.

VIII. RESEARCH

VIII.a Mint Street Memos

Inflation Forecasts: Recent Experience in India and a Cross - country Assessment

The Reserve Bank of India has placed on its website the nineteenth release under the series 'Mint Street Memos (MSM)' titled 'Inflation Forecasts: Recent Experience in India and a Cross-country Assessment'. The paper authored by Janak Raj, Muneesh Kapur, Praggya Das, Asish Thomas George, Garima Wahi and Pawan Kumar analyses the Inflation forecast performance based on the all India Consumer Price Index (CPI), with a special focus on identifying the episodes of large forecast errors and explaining the underlying factors. The document can be accessed at the following link: https://rbi.org.in/Scripts/MSMMintstreetmemos19.aspx

VIII.b Working Papers Series

Cross-border Trade Credit: A Post-Crisis Empirical Analysis for India

Reserve Bank of India placed on its website a Working Paper titled "Cross-border Trade Credit: A Post-Crisis Empirical Analysis for India" under the RBI Working Paper Series. The Paper is authored by Rajeev Jain, Dhirendra Gajbhiye and Soumasree Tewari. The paper profiles trade credit extended by domestic and foreign banks to Indian importers by focusing on its size, composition and cost pattern. Using a panel data of 55 banks for 2007-08:Q1 to 2016-17:Q4, the paper finds that both demand and supply-side factors influence the flow of trade credit. The paper suggests that higher imports – whether due to high prices or volumes – lead to an increase in trade credit. From the supply-side perspective, financial health of banks, cost of trade credit and size of their overseas network seem to influence their trade credit operations.

The empirical findings of the paper suggest that the banks need to expand their global banking relationship and shift towards the use of globally accepted trade finance instruments instead of indigenous instruments (i.e., LoUs /LoCs) which, however, may push up the cost.

The document can be accessed at:
https://www.rbi.org.in/Scripts/PublicationsView.aspx?id=18950

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