MONETARY & CREDIT INFORMATION REVIEW

Volume XVII Issue 1 April 2021

I. Monetary Policy

Resolution of the MPC

On the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) at its meeting held on April 07, 2021 decided to keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 4.0 per cent. Accordingly, marginal standing facility (MSF) rate and the Bank Rate remains unchanged at 4.25 per cent.

The MPC also decided to continue with the accommodative stance as long as necessary to sustain growth on a durable basis and continue to mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward. These decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth. To read more, please click here.

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Liquidity Measures

❑ *TLTRO on Tap Scheme* : The Reserve Bank decided to extend the TLTRO on Tap Scheme by a period of six months, i.e., till September 30, 2021. To read more, please click here.

❑ *Liquidity Facility for AIFIs* : The Reserve Bank decided to extend fresh support of ₹50,000 crore to the all India financial institutions (AIFIs) for new lending in 2021-22.

Regulation and Supervision

❑ *Enhancement of limit of maximum balance per customer for Payments Banks* : The Reserve Bank decided to enhance the limit of maximum balance at end of the day from ₹1 lakh to ₹2 lakh per individual customer based on a review of performance of payments banks and with a view to encourage their efforts for financial inclusion and to expand their ability to cater to the needs of their customers, including MSMEs, small traders and merchants. To read more, please click here.

❑ *ARCs – Constitution of a Committee* : The Reserve Bank proposed to constitute a Committee to undertake a comprehensive review of the working of Asset Reconstruction Companies (ARCs) in the financial sector ecosystem and recommend suitable measures for enabling such entities to meet the growing requirements of the financial sector.

❑ *Permitting banks to on-lend through NBFCs* : The Reserve Bank decided in August 2019 to allow banks to classify lending to registered NBFCs (other than MFIs) as Priority Sector Lending (PSL) up to 5 per cent of a bank's total PSL, for on-lending to Agriculture/MSME/Housing till March 31, 2020. This dispensation was later extended up to March 31, 2021. The Reserve Bank decided to extend the PSL classification for lending by banks to NBFCs for 'on-lending' to the above sectors for six months, i.e. up to September 30, 2021. To read more, please click here.

❑ *PSL guidelines - Enhancement of Loan limit against eNWR/NWR* : The Reserve Bank decided to enhance the loan limit from ₹50 lakh to ₹75 lakh per borrower against the pledge/hypothecation of agricultural produce backed by Negotiable Warehouse Receipts (NWRs)/electronic-NWRs(e-NWRs) issued by warehouses registered and regulated by Warehousing Development and Regulatory Authority. To read more, please click here.

Debt Management

❑ *Review of Way and Means Advances (WMA) limits for the State Governments/UTs* : The Advisory Committee (Chairman: Shri Sudhir Shrivastava) has recommended an overall revised limit of ₹47,010 crore for all states, as against the current limit of ₹32,225 crore (fixed in February 2016), representing an increase of about 46 per cent. The committee also recommended the continuation of the enhanced interim WMA limit of

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 during the month of April in the world of money and credit. MCIR can be accessed at https://mcir.rbi.org.in as well as by scanning the QR code.

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

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

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Editor

₹51,560 crore (60 per cent increase in the current limits allowed by the Reserve Bank during the last fiscal to help states/UTs to tide over the difficulties faced by them during the pandemic) for a further period of six months i.e., from April 1, 2021 up to September 30, 2021. The Reserve Bank has accepted both the recommendations..

Financial Inclusion

- *Financial Inclusion Index* : To measure the extent of financial inclusion in the country, the Reserve Bank will construct and periodically publish a "Financial Inclusion Index" (FI Index).

Payments Systems

- *RTGS and NEFT – Membership for entities other than banks* : The Reserve Bank proposed to enable, in a phased manner, payment system operators, regulated by the Reserve Bank, to take direct membership in Centralised Payment Systems (CPSs).
- *Interoperability of Prepaid Payment Instruments (PPIs), and Increase in account limit to ₹2 lakh* : To incentivise the migration of PPIs to full-KYC, it is proposed to increase the limit of outstanding balance in such PPIs from the current level of ₹1 lakh to ₹2 lakh. Necessary instructions will be issued separately.
- *Permitting Cash Withdrawal from Full-KYC PPIs issued by Non-banks* : The Reserve Bank proposed to allow the facility of cash withdrawal, subject to a limit, for full-KYC PPIs of non-bank PPI issuers as well.

External Commercial Borrowings

- *Relaxation in the period of parking of ECB proceeds in term deposits* : External Commercial Borrowings (ECB) borrowers are allowed to place ECB proceeds in term deposits with AD Category-I banks in India for a maximum period of 12 months. In view of the difficulty faced by borrowers in utilising already drawn down ECBs due to Covid-19 pandemic induced lockdown and restrictions, the Reserve Bank decided to relax the above stipulation as a one-time measure, with a view to provide relief. Accordingly, unutilised ECB proceeds drawn down on or before March 01, 2020 can be parked in term deposits with AD Category-I banks in India prospectively up to March 01, 2022. To read more, please click here.

To read the full statement, please click here.

II. Regulation

Constitution of the RRA 2.0

The Reserve Bank on April 15, 2021 decided to set up a new Regulations Review Authority (RRA 2.0) for a period of one year from the date of its establishment to review the regulatory prescriptions internally as well as by seeking suggestions from the Reserve Bank regulated entities and other stakeholders on their simplification and ease of implementation. The RRA 2.0 will focus on streamlining regulatory instructions, reduce compliance burden of the regulated entities by simplifying procedures and reduce reporting requirements, wherever possible. The terms of reference (ToR) of RRA 2.0 would be as under:

- To make regulatory and supervisory instructions more effective by removing redundancies and duplications, if any;
- To reduce compliance burden on regulated entities by streamlining the reporting mechanism; revoking obsolete instructions if necessary and obviating paper-based submission of returns wherever possible;
- To obtain feedback from regulated entities on simplification of procedures and enhancement of ease of compliance;
- Examine and suggest the changes required in dissemination process of the Reserve Bank circulars/ instructions (this would entail suggestions on the areas where the manner of issuing circulars, their updation and website linkages); and
- Identify any other issue germane to the subject matter.

Shri M. Rajeshwar Rao, Deputy Governor has been appointed as the Regulations Review Authority. The Authority would be set up for a period of one year from May 01, 2021, unless its tenure is extended by the Reserve Bank. The RRA will engage internally as well as externally with all regulated entities and other stakeholders to facilitate the process. To read more, please click here.

Committee on Functioning of ARCs

The Reserve Bank on April 19, 2021 constituted a Committee to undertake a comprehensive review of the working of Asset Reconstruction Companies (ARCs) in the financial sector ecosystem and recommend suitable measures for enabling such entities to meet the growing requirements of the financial sector. The Committee has the following composition:

- Shri Sudarshan Sen, former Executive Director, Reserve Bank, Chairman
- Ms. Vishakha Mulye, Executive Director, ICICI Bank, Member
- Shri P N Prasad, former Deputy Managing Director, SBI, Member
- Shri Rohit Prasad, Professor of Economics, MDI, Gurgaon, Member
- Shri Abizer Diwanji, Partner, Ernst & Young, Member
- Shri R Anand, Chartered Accountant, Member

The ToR of the Committee will be as under:

- Review of existing legal and regulatory framework applicable to ARCs and recommend measures to improve efficacy of ARCs;
- Review of role of ARCs in resolution of stressed assets including under Insolvency & Bankruptcy Code (IBC), 2016;
- Suggestions for improving liquidity in and trading of security receipts;
- Review of business models of the ARCs;
- Any other matter relevant to the functioning, transparency and governance of ARCs.

The Committee will submit its report within three months from the date of its first meeting. The Committee invites views and suggestions on the above aspects from ARCs, market participants and other stakeholders which maybe mailed by May 31, 2021. To read more, please click here.

Review of Requirement of CCyB

The Reserve Bank on April 19, 2021 decided that based on the review and empirical testing of countercyclical capital buffer (CCyB) indicators, it is not necessary to activate CCyB at this point in time. The framework on CCyB was put in place by the Reserve Bank of India in terms of guidelines issued on February 5, 2015 wherein it was advised that the CCyB would be activated as and when the circumstances warranted, and that the decision would normally be pre-announced. To read more, please click here.

Asset Classification and Income Recognition

The Supreme Court of India has pronounced its judgement in the matter of Small Scale Industrial Manufacturers Association vs UoI and Others and other connected matters on March 23, 2021. In this connection, the Reserve Bank on April 07, 2021 advised hereunder:

I. Refund/adjustment of 'interest on interest'

- All lending institutions shall immediately put in place a Board-approved policy to refund/adjust the 'interest on interest' charged to the borrowers during the moratorium period, i.e. March 01, 2020 to August 31, 2020 in conformity with the above judgement.
- The above reliefs shall be applicable to all borrowers, including those who had availed of working capital facilities during the moratorium period, irrespective of whether moratorium had been fully or partially availed, or not availed, in terms of the circulars dated March 27, 2020 and May 23, 2020 ("Covid-19 Regulatory Package").
- Lending institutions shall disclose the aggregate amount to be refunded/adjusted in respect of their borrowers based on the above reliefs in their financial statements for the year ending March 31, 2021.

II. Asset Classification

Asset classification of borrower accounts by all lending institutions following the above judgment shall continue to be governed by the extant instructions as clarified below:

- In respect of accounts which were not granted any moratorium in terms of the Covid19 Regulatory Package, asset classification shall be as per the criteria laid out in the Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances dated July 1, 2015 or other relevant instructions as applicable to the specific category of lending institutions (IRAC Norms).
- In respect of accounts which were granted moratorium in terms of the Covid19 Regulatory Package, the asset classification for the period from March 01, 2020 to August 31, 2020 shall be governed in terms of the circular dated April 17, 2020, read with circular dated May 23, 2020.

To read more, please click here.

Interest Equalisation Scheme - Extension

The Reserve Bank on April 12, 2021 notified that the Government of India has approved the extension of Interest Equalisation Scheme for pre and post shipment Rupee export credit, with same scope and coverage, for three more months i.e., upto June 30, 2021. The extension takes effect from April 01, 2021 and ends on June 30, 2021 covering a period of three months. Consequently, the extant operational instructions issued by the Reserve Bank under the captioned Scheme shall continue to remain in force upto June 30, 2021. To read more, please click here.

Declaration of Dividends by Banks

The Reserve Bank on April 22, 2021 notified all commercial banks and cooperative banks that in view of the continuing uncertainty caused by the ongoing second wave of COVID-19 in the country, it is crucial that banks remain resilient and proactively raise and conserve capital as a bulwark against unexpected losses. Therefore, while allowing banks to pay dividend on equity shares, it has been decided to review the dividend declaration norms for the year ended March 31, 2021 as below:

- Commercial Banks - In partial modification of the instructions contained in circular dated May 4, 2005, banks may pay dividend on equity shares from the profits for the financial year ended March 31, 2021, subject to the quantum of dividend being not more than fifty percent of the amount determined as per the dividend payout ratio prescribed the circular.
- Cooperative Banks - Cooperative banks shall be permitted to pay dividend on equity shares from the profits of the financial year ended March 31, 2021 as per the extant instructions.
- General - All banks shall continue to meet the applicable minimum regulatory capital requirements after dividend payment. To read more, please click here.

Applicants under the Guidelines for 'on tap' Licensing

The Reserve Bank on April 15, 2021 released the following names of applicants under the Guidelines for 'on tap' Licensing of Universal Banks and Small Finance Banks:

Applicants under Guidelines for 'on tap' Licensing of Universal Banks

- UAE Exchange and Financial Services Limited
- The Repatriates Cooperative Finance and Development Bank Limited (REPCO Bank)
- Chaitanya India Fin Credit Private Limited
- Shri Pankaj Vaish and others

Applicants under Guidelines for 'on tap' Licensing of Small Finance Banks

- VSoft Technologies Private Limited
- Calicut City Service Co-operative Bank Limited
- Shri Akhil Kumar Gupta
- Dvara Kshetriya Gramin Financial Services Private Limited

The constitution and composition of Standing External Advisory Committee for evaluating the applications received under the aforementioned guidelines was announced on March 22, 2021. To read more, please click here.

Corporate Governance in Banks

A discussion paper on 'Governance in Commercial Banks in India' was issued by the Reserve Bank on

June 11, 2020 to review the framework for governance in the commercial banks. Based on the feedback received, a comprehensive review of the framework has been done, and a Master Direction on Governance will be issued in due course. In order to address a few operative aspects received through such feedback, it has been decided to issue instructions with regard to the Chair and meetings of the board, composition of certain committees of the board, age, tenure and remuneration of directors, and appointment of the whole-time directors (WTDs) of all the private sector banks including small finance banks (SFBs) and wholly owned subsidiaries of foreign banks.

Chair and meetings of the Board - The Chair of the board shall be an independent director. In the absence of the Chair of the board, the meetings of the board shall be chaired by an independent director. The quorum for the board meetings shall be one-third of the total strength of the board or three directors, whichever is higher. At least half of the directors attending the meetings of the board shall be independent directors.

Committees of the Board - The Audit Committee of the Board (ACB), Risk Management Committee of the Board (RMCB), Nomination and Remuneration Committee (NRC) shall meet with a quorum of 3 members. The Chair of the board should not chair the ACB, RMCB or NRC. The meeting should be chaired by an independent director. The ACB and RMCB shall meet at least once a quarter. The meeting of NRC may be held as and when required.

Age and tenure of non-executive directors (NEDs) - The upper age limit for NEDs, including the Chair of the board, shall be 75 years and after attaining the age of 75 years no person can continue in these positions. he total tenure of an NED, continuously or otherwise, on the board of a bank, shall not exceed eight years. After completing eight years on the board of a bank the person may be considered for re-appointment only after a minimum gap of three years.

Remuneration of NEDs - The fixed remuneration for an NED, other than the Chair of the board, shall not exceed ₹20 lakh per annum.

Tenure of MD and CEO and WTDs - The post of the MD and CEO or WTD cannot be held by the same incumbent for more than 15 years. It is clarified that the extant instructions on upper age limit for MD and CEO and WTDs in the private sector banks would continue and no person can continue as MD and CEO or WTD beyond the age of 70 years. MD and CEO or WTD who is also a promoter/ major shareholder, cannot hold these posts for more than 12 years. For more details, please click here.

III. Supervision

RBI joins Network for Greening the Financial System

The Reserve Bank of India has joined the Central Banks and Supervisors Network for Greening the Financial System (NGFS) as a Member on April 23, 2021. The NGFS is a group of central banks and supervisors willing to share best practices and contribute to the development of environment and climate risk management in the financial sector, while mobilising mainstream finance to support the transition towards a sustainable economy. The Reserve Bank expects to benefit from the membership of NGFS by learning from and contributing to global efforts on Green Finance which has assumed significance in the context of climate change. To read more, please click here.

Guidelines for Appointment of SCAs/SAs

The Reserve Bank on April 27, 2021 issued the following guidelines under Section 30(1A) of the Banking Regulation Act, 1949, Section 10(1) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/1980 and Section 41(1) of SBI Act, 1955; and under provisions of Chapter IIIB of RBI Act, 1934 for NBFCs:

Applicability - The guidelines will be applicable to the Commercial Banks (excluding RRBs), UCBs and NBFCs including HFCs (hereinafter referred to as the Entities) for Financial Year 2021-22 and onwards in respect of appointment/reappointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of the Entities.

Prior Approval of the Reserve Bank - Commercial Banks (excluding RRBs) and UCBs will be required to take prior approval of the Reserve Bank (Department of Supervision) for appointment/reappointment of SCAs/SAs, on an annual basis. While NBFCs do not have to take prior approval of the Reserve Bank for appointment of SCAs/SAs, all NBFCs need to inform the Reserve Bank within one month of such appointment.

Number of SCAs/SAs and Branch Coverage - For Entities with asset size of ₹15,000 crore and above as at the end of previous year, the statutory audit should be conducted under joint audit of a minimum of two audit firms [Partnership firms/Limited Liability Partnerships (LLPs)]. All other Entities should appoint a minimum of one audit firm (Partnership firm/LLPs) for conducting statutory audit.

Eligibility Criteria of Auditors - Each Entity is required to appoint audit firm(s) as its SCA(s)/SA(s) fulfilling the eligibility norms as prescribed in Annex I of the guidelines.

Independence of Auditors – For Commercial Banks (excluding RRBs) and NBFCs, the Audit Committee of the Board (ACB)/ Local Management Committee (LMC) shall monitor and assess the independence of the auditors and conflict of interest position in terms of relevant regulatory provisions, standards and best practices. For UCBs/remaining NBFCs, the Board of Directors shall monitor and assess the independence of the auditors.

Professional Standards of SCAs/SAs - The SCAs/SAs shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.

Tenure and Rotation – In order to protect the independence of the auditors/audit firms, Entities will have to appoint the SCAs/SAs for a continuous period of three years, subject to the firms satisfying the eligibility norms each year.

Audit Fees and Expenses - The audit fees for SCAs/SAs of all the Entities shall be decided in terms of the relevant statutory/regulatory provisions.

Statutory Audit Policy and Appointment Procedure - Each Entity shall formulate a Board/LMC approved policy to be hosted on its official website/public domain and formulate necessary procedure thereunder to be followed for appointment of SCAs/SAs.

To read the full guidelines, please click here.

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