MONETARY & CREDIT INFORMATION REVIEW

Volume XVII Issue 5 August 2021

MCIR

Azadi Ka Amrit Mahotsav

I. Monetary Policy

Bi-monthly Monetary Policy Announcement

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 from August 4-6, 2021 decided to keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 4.0 per cent. Consequently, the reverse repo rate under the LAF remains unchanged at 3.35 per cent and the marginal standing facility (MSF) rate and the Bank Rate at 4.25 per cent. The MPC also decided to continue with the accommodative stance as long as necessary to revive and 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.

Statement on Developmental and Regulatory Policies

I. Liquidity Measures:

On Tap TLTRO Scheme – Extension of Deadline

Given the nascent and fragile economic recovery, it was decided to extend the on tap TLTRO scheme further by a period of three months, that is, till December 31, 2021. The Reserve Bank had announced the on tap TLTRO scheme on October 9, 2020 for five sectors which was available up to March 31, 2021 and further extended upto September 30, 2021.

MSF - Extension of Relaxation

The relaxation on the marginal standing facility (MSF) was extended for a further period of three months upto December 31, 2021. The MSF, which was initially available upto June 30, 2020 was later extended in phases up to March 31, 2021 and again for a further period of six months till September 30, 2021, providing comfort to banks on their liquidity requirements and also to enable them to meet their liquidity coverage ratio (LCR) requirements.

II. Regulatory Measures:

LIBOR Transition - Review of Guidelines

The Reserve Bank decided to amend the guidelines related to export credit in foreign currency and restructuring of derivative contracts in view of the London Interbank Offered Rate (LIBOR) transition, a significant event that poses challenges for banks and the financial system.

i) Export Credit in Foreign Currency – Benchmark Rate:

In view of the impending discontinuance of LIBOR as a benchmark rate, the Reserve Bank has permitted banks to extend export credit using any other widely accepted Alternative Reference Rate in the currency concerned.

ii) Prudential Norms for Off-balance Sheet Exposures of Banks:

Since the impending change in reference rate from LIBOR is a "force majeure" event, banks are being advised that change in reference rate from LIBOR / LIBOR-related benchmarks to an Alternative Reference Rate will not be treated as restructuring.

Deferral of Deadline for Achievement of Financial Parameters

Recognising the adverse impact of second wave of COVID-19 on revival of businesses, and the difficulty it may pose in meeting the operational parameters, the Reserve Bank decided to defer the target date for meeting the specified thresholds in respect of the above parameters to October 1, 2022. As regards the parameter Total Outside Liabilities/Adjusted Total Net Worth (TOL/ATNW), this ratio reflects the revised capital structure (i.e., debt-equity mix) as required under the implementation conditions for the resolution framework and was expected to be crystallised upfront as part of the resolution plan. Accordingly, the date for achieving the same remains unchanged, that is, March 31, 2022. To read more, please click [here.]

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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 August 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

Yogesh Dayal
Editor

Minutes of Meeting

The minutes of the thirtieth meeting of the Monetary Policy Committee (MPC), constituted under section 45 Z B of the Reserve Bank of India Act, 1934, held from August 4 to 6, 2021 were released on August 20, 2021. According to Section 45 Z L of the 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. To read the full minutes, please click here.

II. Regulation

Resolution Framework for COVID-19-related Stress

In view of the resurgence of the COVID-19 pandemic in 2021 and recognising the difficulties it may pose for the borrowers in meeting the operational parameters, the Reserve Bank on August 6, 2021 deferred the target date for meeting the specified thresholds in respect of the four operational parameters, viz. Total Debt / EBIDTA, Current Ratio, DSCR and ADSCR, to October 1, 2022. The target date for achieving the ratio TOL/ATNW, as crystallised in terms of the resolution plan, shall remain unchanged as March 31, 2022. The key ratios consisted of four operational ratios, viz., Total Debt / EBITDA, Current Ratio, Debt Service Coverage Ratio (DSCR) and Average Debt Service Coverage Ratio (ADSCR), along with the ratio Total Outside Liabilities/Adjusted Tangible Net Worth (TOL/ATNW) representing the debt-equity mix of the borrower post implementation of the resolution plan. To read more, please click here.

Export Credit in Foreign Currency

In view of the impending discontinuance of LIBOR as a benchmark rate, the Reserve Bank on August 6, 2021 permitted banks to extend export credit using any other widely accepted alternative reference rate in the currency concerned. As per the extant guidelines, authorised dealers are permitted to extend Pre-shipment Credit in Foreign Currency (PCFC) to exporters for financing the purchase, processing, manufacturing or packing of goods prior to shipment at LIBOR/EURO LIBOR/EURIBOR related rates of interest. All other instructions in this regard shall remain unchanged. To read more, please click here.

Restructuring of Derivative Contracts

The Reserve Bank on August 6, 2021 clarified that change in the terms of a derivative contract on account of change in reference rate necessitated due to transition from LIBOR to an alternative reference rate shall not be treated as restructuring of the derivative contract provided all other parameters of the original contract remain unchanged. To read more, please click here.

Safe Deposit Locker/Safe Custody Article

The Reserve Bank on August 18, 2021 revised the instructions pertaining to 'Safe deposit locker/Safe custody article facility provided by commercial banks. Accordingly, banks were advised to frame their own Board approved policy/ operational guidelines with regard to taking into account the revised instructions. The revised instructions shall come into force with effect from January 1, 2022 and be applicable to both new and existing safe deposit lockers and the safe custody of articles facility with the banks.

Salient features of the Customer Due Diligence (CDD) for lockers:

i) The existing customers of a bank who have made an application for locker facility and who are fully compliant with the CDD criteria may be given the facilities of safe deposit lockers/ safe custody article subject to on-going compliance.

ii) Customers who are not having any other banking relationship with the bank may be given the facilities of safe deposit locker / safe custody article after complying with the CDD criteria and subject to on-going compliance. The due diligence shall be carried out for all the customers in whatever rights and capacities they may be hiring the locker.

iii) Banks shall incorporate a clause in the locker agreement that the locker-hirer/s shall not keep anything illegal or any hazardous substance in the safe deposit locker. If the bank suspects the deposit of any illegal or hazardous substance by any customer in the safe deposit locker, the bank shall have the right to take appropriate action against such customer as it deems fit and proper in the circumstances.

iv) The banks shall obtain recent passport size photographs of locker-hirer(s) and individual(s) authorised by locker hirer(s) to operate the locker and preserve in the records pertaining to locker-hirer being maintained in the bank's branch.

Locker Allotment

i) In order to facilitate customers making informed choices, banks shall maintain a branch wise list of vacant lockers as well as a wait-list in core banking system (CBS) or any other computerised system compliant with cyber security framework issued by the Reserve Bank for the purpose of allotment of lockers and ensure transparency in allotment of lockers. The banks shall acknowledge the receipt of all applications for allotment of locker and provide a wait list number to the customers, if the lockers are not available for allotment.

Model Locker Allotment

i) Banks shall have a board approved agreement for safe deposit lockers. For this purpose, banks may adopt the model locker agreement to be framed by Indian Banks Association. This agreement shall be in conformity with these revised instructions and the directions of the Hon'ble Supreme Court in this regard. Banks shall ensure that any unfair terms or conditions are not incorporated in their locker agreements. Further, the terms of the contract shall not be more onerous than required in ordinary course of business to safeguard the interests of the bank. Banks shall renew their locker agreements with existing locker customers by January 1, 2023.

ii) At the time of allotment of the locker to a customer, the bank shall enter into an agreement with the customer to whom the locker facility is provided, on a paper duly stamped. A copy of the locker agreement in duplicate signed by both the parties shall be furnished to the locker-hirer to know his/her rights and responsibilities. Original agreement shall be retained with the bank's branch where the locker is situated.

Locker Rent

i) Banks may face potential situations where the locker-hirer neither operates the locker nor pays the rent. To ensure prompt payment of locker rent, banks are allowed to obtain a term deposit, at the time of allotment, which would cover three years' rent and the charges for breaking open the locker in case of such eventuality. Banks, however, shall not insist on such Term Deposits from the existing locker holders or those who have satisfactory operative account. The packaging of allotment of locker facility with placement of term deposits beyond what is specifically permitted above will be considered as a restrictive practice.

ii) If locker rent is collected in advance, in the event of surrender of a locker by a customer, the proportionate amount of advance rent collected shall be refunded to the customer.

iii) If there is any event such as merger / closure / shifting of branch warranting physical relocation of the lockers, the bank shall give public notice in two newspapers (including one local daily in vernacular language) in this regard and the customers shall be intimated at least two months in advance along with options for them to change or close the facility. In case of unplanned shifting due to natural calamities or any other such emergency situation, banks shall make efforts to intimate their customers suitably at the earliest. To read more, please click here.

Investment Portfolio of Banks

To enable banks to have current instructions at one place, the Reserve Bank on August 25, 2021 issued a master direction on 'Classification, Valuation and Operation of Investment Portfolio of Commercial Banks'. This direction has been issued by the Reserve Bank in exercise of powers conferred on it under Section 35A of the Banking Regulation Act. To read more, please click here.

III. Payment and Settlement Systems

Outsourcing by PSOs

The Reserve Bank on August 3, 2021 has formulated a framework for outsourcing of payment and settlement-related activities by Payment System Operators (PSOs). The PSOs shall ensure that all their outsourcing arrangements, including the existing ones, are in compliance with this framework by March 31, 2022. The framework was notified by the Reserve Bank, based on the announcement made in the Statement on Developmental and Regulatory Policies released with the bi-monthly Monetary Policy Statement 2020-21 on February 5, 2021. Salient features of the framework for outsourcing of payment and settlement activities by PSOs:

i) This framework is applicable to non-bank PSOs insofar as it relates to their payment and / or settlement-related activities.

ii) It seeks to put in place minimum standards to manage risks in outsourcing of payment and / or settlement-related activities (including other incidental activities like on-boarding customers, IT based services, etc.

iii) The framework is not applicable to activities other than those related to payment and / or settlement services, such as internal administration, housekeeping or similar functions.

iv) This framework is applicable to a service provider, whether located in India or elsewhere.

v) It is essential that the PSO, which is outsourcing its activities, ensures the following:

a) Exercises due diligence, puts in place sound and responsive risk management practices for effective oversight, and manages the risks arising from such outsourcing of activities.

b) Outsourcing arrangements do not impede its effective supervision by RBI.

vi) Outsourcing of activities by the PSOs shall not require prior approval from RBI.

vii) The PSOs shall not outsource core management functions3, including risk management and internal audit; compliance and decision-making functions such as determining compliance with KYC norms. However, while internal audit function itself is a management process, the auditors for this purpose can be appointed by the PSO from its own employees or from the outside on contract.

viii) The PSO shall carefully evaluate the need for outsourcing its critical processes and activities, as also selection of service provider(s) based on comprehensive risk assessment. The critical processes are those, which if disrupted, shall have the potential to significantly impact the business operations, reputation, profitability and / or customer service. To read more, please click here.

PM SVANidhi Scheme Beneficiaries

The Reserve Bank on August 26, 2021 decided to include street vendors identified as part of the PM Street Vendor's AtmaNirbhar Nidhi (PM SVANidhi scheme) in tier–1 and tier – 2 centres as beneficiaries under the Payments Infrastructure Development Fund (PIDF) scheme. The street vendors in tier– 3 to tier– 6 centres will continue to be covered under the scheme. The decision to expand the targeted beneficiaries under the PIDF scheme would provide a fillip to the Reserve Bank's efforts towards promoting the digital transactions at the grass root level. To read more, please click here.

Tokenisation of Card Transactions

On a review of the framework on tokenisation of card transactions and keeping in view stakeholder feedback, the Reserve Bank on August 25, 2021 extended the scope of tokenisation to include consumer devices–laptops, desktops desktops, wearables (wrist watches, bands, etc.), Internet of Things (IoT) devices, etc. All other provisions of the circular referred to above shall continue to be applicable. This initiative is expected to make card transactions more safe, secure and convenient for the users. To read more, please click here.

IV. Currency Management

Cash Availability in ATMs

The Reserve Bank on August 10, 2021 advised the banks/ white label ATM operators (WLAOs) to strengthen their systems/ mechanisms to monitor availability of cash in ATMs and ensure timely replenishment to avoid cash-outs. Any non-compliance in this regard shall be viewed seriously and shall attract monetary penalty as stipulated in the "Scheme of Penalty for non-replenishment of ATMs. The decision was taken after a review of downtime of ATMs due to cash-outs was undertaken and it was observed that ATM operations affected by cash-outs lead to non-availability of cash and cause avoidable inconvenience to the members of the public. To read more, please click here.

Measures to Enhance Coins Distribution

The Reserve Bank on August 27, 2021 revised the incentive being paid to banks for distribution of coins with the objective to provide a major thrust on alternative avenues to extend the outreach. An incentive of ₹65/- per bag for distribution of coins will be paid on the basis of net withdrawal from currency chest without waiting for claims from banks. An additional incentive of ₹10/- per bag would be paid for coin distribution in rural and semi-urban areas. To read more, please click here.

V. Banker to Government

State Government Accounts

With a view to ensure prompt/immediate refund/credit to the government account in the cases of excess put through/ double claim in the payment scrolls by the agency banks, the Reserve Bank on August 2, 2021 decided in consultation with the office of the Comptroller and Auditor General of India (C&AG) that penal interest for excess put through/ double claim amount may be levied by State Government as in the case of delayed credit of receipts. The penal interest period for such double claim/excess put through may start from the date on which the agency bank has received the excess put through / double claim amount and upto previous date to actual date of return of such excess put through / double claim amount by agency banks to concerned state government account (excluding the date of return of such excess payment/double claim amount by the agency banks to government account(s)). The rate of penal interest is Bank rate plus 2 per cent. The procedure for claiming/ recovering of delayed period interest will remain unchanged and it will be charged irrespective of the amount involved in such excess put through /double claim by agency banks. To read more, please click here.

VI. Financial Inclusion

Financial Inclusion Index

The Reserve Bank has constructed a composite Financial Inclusion Index (FI-Index) to capture the extent of financial inclusion across the country. The FI-Index has been conceptualised as a comprehensive index incorporating details of banking, investments, insurance, postal as well as the pension sector in consultation with Government and respective sectoral regulators. The index captures information on various aspects of financial inclusion in a single value ranging between 0 and 100, where 0 represents complete financial exclusion and 100 indicates full financial inclusion. The FI-Index comprises of three broad parameters (weights indicated in brackets) viz., Access (35 per cent), Usage (45 per cent), and Quality (20 per cent) with each of these consisting of various dimensions, which are computed based on a number of indicators. To read more, please click here.

Collateral Free Loans to SHGs

The Reserve Bank on August 9, 2021 amended the paragraph on 'Security and Margin' of the master circular on Deendayal Antyodaya Yojana - National Rural Livelihoods Mission (DAY-NRLM) as follows:
i) For loans to Self Help Groups (SHGs) up to ₹10 lakh, no collateral and no margin will be charged. No lien should be marked against savings bank account of and no deposits should be insisted upon while sanctioning loans.
ii) For loans to SHGs above ₹10 lakh and up to ₹20 lakh, no collateral should be charged and no lien should be marked against savings bank account of SHGs. However, the entire loan (irrespective of the loan outstanding, even if it subsequently goes below ₹10 lakh) would be eligible for coverage under Credit Guarantee Fund for Micro Units (CGFMU). To read more, please click here.

VII. RBI Bulletin

The Reserve Bank released its monthly bulletin on August 17, 2021. Apart from the Monetary Policy statement, resolution, other policy documents, the Bulletin also consists two speeches, four articles and current statistics. The four articles are (i) State of the economy (ii) COVID-19 impact on food price mark-ups in India (iii) TLTRO and structural liquidity: A shot in the arm for NBFCs and (iv) Performance of small finance banks – an early reflection. To read more, please click here.

VIII. Data Releases

The Reserve Bank on August 6, 2021 released data on the performance of the private corporate sector during 2020-21 drawn from abridged financial results of 3,049 listed non-government non-financial (NGNF) companies. Corresponding data pertaining to 2019-20 are also presented in the tables to enable comparison. The data can be accessed by clicking here.

Edited and published by **Yogesh Dayal** for Reserve Bank of India, Department of Communication, Central Office, Shahid Bhagat Singh Marg, Mumbai - 400 001. MCIR can be also accessed at https://mcir.rbi.org.in.