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**MONETARY AND CREDIT
INFORMATION REVIEW**

Banking Regulation

Prior Approval for Acquisition of Shares/Voting Rights in Private Banks

The Reserve Bank on November 19, 2015 issued revised Directions necessitating prior approval for acquisition of shares or voting rights in private sector banks. The provisions of these Directions shall apply to the existing and proposed "major shareholders" of the private sector banks and all private sector banks including local area banks, licensed to operate in India.

Every person who intends to make an acquisition / make an agreement for acquisition which will / is likely to take the aggregate holding of such person together with shares / voting rights / compulsorily convertible debentures / bonds held by him, his relatives, associate enterprises and persons acting in concert with him, to 5 per cent or more of the paid-up share capital of the concerned bank or entitles him to exercise 5 per cent or more of the total voting rights of the concerned bank, shall seek prior approval of the Reserve Bank. These Directions contain following major changes:

- A person intending to acquire shares or compulsorily convertible debentures/bonds or voting rights or convert optionally convertible debentures/bonds of 5 per cent or more in a private sector bank, he/she will have to apply to the Reserve Bank for obtaining its prior approval. Considering all the facts including the outcome of the due diligence and information received from the concerned bank, the Reserve Bank may accord or deny permission or accord permission for acquisition of a lower quantum than that has been applied for. The decision of the Reserve Bank will be conveyed to the applicant and the concerned bank and will be binding on both.

- An existing major shareholder, who already has the approval of the Reserve Bank to have a major shareholding in a bank, will not be required to obtain prior approval from the Reserve Bank for fresh incremental acquisition of shares or voting rights of the concerned bank if the proposed aggregate holding is up to 10 per cent. However, if the fresh incremental acquisition is likely to result in enhancing the aggregate shareholding of the existing major shareholder in the bank beyond 10 per cent, the major shareholder will have to obtain a fresh prior approval from the Reserve Bank for the proposed incremental shareholding.

- The major shareholders that is, shareholders having 5 per cent or more of the paid-up share capital of the bank as indicated above, would have to give an annual declaration to the concerned bank on their 'fit and proper' status and if in the bank's assessment any major shareholder is not 'fit and proper', it will have to immediately furnish the requisite information to the Reserve Bank.

The Directions also lay down a process for ensuring continuing compliance with the 'fit and proper' criteria for the major shareholders of private sector banks. They should furnish an annual declaration within one month of the close of financial year in prescribed format,

to the concerned bank for review of their 'fit and proper' status. If any major shareholder is assessed not 'fit and proper', by the concerned bank, the bank will have to report to the Reserve Bank immediately.

The permission granted for acquisition of major shareholding will not automatically increase the voting rights unless otherwise specified by the Reserve Bank.

https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=35506

Applications for Financial Assistance from DEA Fund

The Reserve Bank, on October 8, 2015 invited second tranche of fresh applications for registering institutions, organisations and associations for grant of financial assistance from the Depositor Education and Awareness (DEA) Fund. Further, the Reserve Bank has also revised provisions relating to the conditions required to be fulfilled by eligible entities, and some of the aspects relating to the procedure for decision of the Committee have been modified.

Eligible entities may apply in the prescribed format along with necessary documents/ information as per the list of documents indicated in the application form, to The Chief General Manager, Department of Banking Regulation, Central Office, Mumbai on or before January 8, 2016. Entities, which had submitted their applications for registration in the first tranche in terms of the Press Release dated January 9, 2015, are not eligible to apply for registration in the second tranche.

Earlier on October 1, 2015, the Reserve Bank released names of 20 entities that have been approved by the DEA Fund Committee

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for registration for seeking grant of financial assistance from the Depositor Education and Awareness Fund. These 20 entities have been selected out of 90 applications received for registration. The registered entities may make application in the prescribed format available on the Reserve Bank website along with all relevant and supporting documents/information for project-specific financial assistance from the Fund.

The names of the 20 entities are:

| Sl No. | Names of the Registered Entities |
|--------|--|
| 1. | Vasantha Lakshmi Charitable Trust & Research Centre, Nellore, Andhra Pradesh |
| 2. | Society for Social Transformation, Andhra Pradesh |
| 3. | Voluntary Organisation in Interest of Consumer Education Society, New Delhi |
| 4. | Progressive Action for Community Emancipation (PACE), Chittoor, Andhra Pradesh |
| 5. | International Network of Alternative Financial Institutions-India, Madurai |
| 6. | SAMARPIT- Centre for Poverty Alleviation and Social Research, Bilaspur |
| 7. | Voluntary Integrated Development Society, Andhra Pradesh |
| 8. | Initiatives for Development Foundation, Bengaluru |
| 9. | MOTHER, Bhubaneswar |
| 10. | Genesis Academy of Banking & Finance Education Trust, Mumbai |
| 11. | MONEYLIFE Foundation, Mumbai |
| 12. | ASSLS Organization, Andhra Pradesh |
| 13. | Consumer Education and Research Society, Ahmedabad |
| 14. | Consumer Unity & Trust Society (CUTS), Jaipur |
| 15. | Indian School of Microfinance for Women, Ahmedabad |
| 16. | Swadhaar Finaccess, Mumbai |
| 17. | Xavier Labour Relations Institute (XLRI), Jamshedpur |
| 18. | Aparajita Mahila Sangh, Indore |
| 19. | Priyasakhi Mahila Sangh, Indore |
| 20. | DHAN Foundation, Madurai |

(https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=35130)

Internet Banking for Customers of Co-op Banks/RRBs

The Reserve Bank, on November 5, 2015 allowed state cooperative banks (StCBs) and district central cooperative banks (DCCBs) to extend the facility of internet banking to their customers. Accordingly, the following uniform guidelines for all the cooperative banks have been issued:

Internet Banking (View only) Facility:

Licensed state cooperative banks (StCBs) and district central cooperative banks (DCCBs) and primary (urban) co-operative banks (UCBs) which have implemented core banking solution (CBS) and migrated to Internet Protocol Version 6 (IPv6), can now offer internet banking (view only) facility to their customers, without prior approval of the Reserve Bank. In case, any service offered under 'view only' facility requires two-factor authentication or One Time Password (OTP), banks may adopt the security features prescribed, as appropriate to such services. The cooperative banks offering internet banking (view only) facility to their customers should ensure that the facility is strictly for non-transactional services, such as, balance enquiry, balance viewing, account statement download, request for

supply of cheque books, etc. and no online fund-based transactions are allowed. The cooperative banks have to report commencement of the service to the concerned regional office of the Reserve Bank (and also NABARD in case of StCBs/DCCBs) within one month of operationalisation of internet banking (view only) facility.

Internet Banking with Transactional Facility:

All licensed StCBs, DCCBs and UCBs which have implemented CBS and have also migrated to Internet Protocol Version 6 (IPv6) may offer internet banking with transactional facility to their customers with prior approval of the Reserve Bank, subject to the following criteria:

- Capital to risk weighted assets ratio (CRAR) of not less than 10 per cent;
- Net worth is ₹ 50 crore or more as on March 31 of the immediate preceding financial year;
- Gross Non-Performing Assets (NPAs) is less than 7 per cent and Net NPAs not more than 3 per cent;
- The bank should have made a net profit in the immediate preceding financial year and overall, should have made net profit at least in three out of the preceding four financial years;
- The bank should not have defaulted in maintenance of cash reserve ratio (CRR)/ statutory liquidity ratio (SLR) during the immediate preceding financial year;
- The bank has sound internal control system with at least two professional directors on the Board;
- The bank has a track record of regulatory compliance and no monetary penalty has been imposed on the bank for violation of RBI directives/guidelines during the two financial years, preceding the year in which the application is made.

Making the Application:

The interested StCB, DCCB and UCB will submit an application to the concerned Regional Office of the Reserve Bank (through NABARD in case of StCB/DCCB) with the prescribed documents. StCBs/DCCBs which are already offering internet banking (view only) facility to their customers should immediately review their systems in the light of these guidelines and report to the concerned Regional Office of the Reserve Bank (through NABARD), within one month from the date of issuance of these guidelines, the type of services offered and the extent of their compliance with these guidelines. Deviations from the guidelines should be reported with an action plan indicating a timeframe for compliance. StCBs/DCCBs, which are already offering Internet Banking transactional services, are advised to comply with these instructions and submit details of their business models, projections of cost/benefits, etc. and obtain post facto approval of the concerned Regional Office of the Reserve Bank within one month from the date of issuance of this circular. Such applications should be routed through NABARD to the Regional Office of the Reserve Bank.

Requirements:

Licensed StCBs, DCCBs and UCBs intending to offer internet banking facility to their customers should comply with the following:

1. The bank should formulate a policy for Internet Banking with the approval of the Board.
2. The policy should fit into the bank's overall Information technology and Information Security Policy and ensures confidentiality of records and security systems.
3. The policy should clearly lay down the procedure to be followed in respect of 'Know Your Customer' requirements.
4. The policy should cover technology and security standards and also address the legal, regulatory and supervisory issues.

5. The banks should put in place sound internal control systems and take into account the operational risks involved in providing the service.
6. Adequate disclosure should be made regarding the risk, responsibilities and liabilities to the customers before offering the facility.

Reporting:

The bank will report to the concerned Regional Office of the Reserve Bank (and also NABARD in case of StCBs /DCCBs) every breach or failure of security systems and procedures and the Reserve Bank (and also NABARD in case of StCBs /DCCBs), at its discretion, may decide to commission a special audit/inspection of such bank.

<https://rbi.org.in/Scripts/NotificationUser.aspx?Id=10111&Mode=0>

Similarly, with a view to enhancing customer service and taking into account demand for such services, the Reserve Bank, on November 19, 2015 allowed regional rural banks (RRBs) to extend the facility of internet banking to their customers.

<https://rbi.org.in/Scripts/NotificationUser.aspx?Id=10128&Mode=0>

Co-operative Banking Regulation

Placement of Deposits with Other Banks by UCBS

The Reserve Bank on November 19, 2015 permitted scheduled primary (Urban) Co-operative Banks (UCBs) fulfilling the prescribed criteria, to accept deposits from other scheduled UCBS. The primary UCBS accepting deposits from other UCBS should, however, have an arrangement between them for providing specific services to the latter bank. These specific services include, acting as the sponsor bank for clearing purposes, DD arrangement, CSGI facility, currency chest facility, foreign exchange transactions, remittance facility and non-fund based facilities like bank guarantee (BG), letter of credit (LC). However, acceptance of deposits by scheduled UCBS from scheduled UCBS in the nature of placement of deposits for investment purposes is not permitted. Further, those scheduled UCBS which have accepted deposits from other non-scheduled UCBS but do not meet prescribed criteria, are advised to phase out the existing deposits of other UCBS by March 31, 2019.

UCBs that currently meet the prescribed criteria but fail to meet them in the future will also cease to be eligible to accept fresh deposits from non-scheduled/ scheduled UCBS immediately upon such failure. The placement of deposits by scheduled/ non-scheduled UCBS and acceptance of deposits by scheduled UCBS would be subject to the prudential limits for inter-bank (gross) exposure, inter-bank counter party exposure and total deposit liabilities.

<https://rbi.org.in/Scripts/NotificationUser.aspx?Id=10122&Mode=0>

Payment Systems

RBI's in-principle Approval for NPCI to be BBPCU

The Reserve Bank, on November 24, 2015, granted 'in principle' approval to the National Payments Corporation of India (NPCI) to function as the Bharat Bill Payment Central Unit (BBPCU) in Bharat Bill Payment System (BBPS).

The Bharat Bill Payment System (BBPS), an integrated bill payment system, will function as a tiered structure for operating the bill payment system in the country with a single brand image providing convenience of 'anytime anywhere' bill payment to customers. As the central unit, NPCI will set necessary operational, technical and business standards for the entire system and its participants, and also undertake clearing and settlement activities. The present scope of BBPS will include utility bill

payments, such as, electricity, water, gas, telephone and Direct-to-Home (DTH). Based on the experience, this would be extended to include other types of repetitive payments, like school / university fees, municipal taxes etc. in future.

The Operating Units will function as entities facilitating collection of bills/repetitive payments. Banks and non-bank entities presently engaged in the bill payment activities covered under the current scope of Bharat Bill Payment System (BBPS) can participate either as Bharat Bill Payment Operating Units (BBPOUs) or as agents of authorised BBPOUs.

The Reserve Bank had invited applications for authorisation/ approval to function as Operating Unit from non-banks/banks, the last date of receipt for which has been extended to December 18, 2015 from the earlier November 20, 2015. The Reserve Bank has received 12 applications for authorisation from non-bank entities and 18 requests for approval from banks for operating as a BBPOU till close of business on November 20, 2015. The Reserve Bank would continue to receive further applications for authorisation/approval till December 18, 2015.

Earlier on October 20, 2015, the Reserve Bank had invited applications for authorisation from entities engaged in bill payments and desirous of operating as Bharat Bill Payment System Operating Units (BBPOUs) under the Bharat Bill Payment System (BBPS). Entities currently engaged in such bill payment activities and desirous of continuing the activity are mandatorily required to apply for authorisation to the Reserve Bank under the Payment and Settlement Systems (PSS) Act 2007.

Non-Bank Entities:

Non-bank entities applying for authorisation and fulfilling the eligibility criteria laid out in the BBPS guidelines will be issued "in-principle" authorisation to join the BBPS under the PSS Act. Those which have applied for authorisation but do not at present meet the eligibility criteria will be given one-time extension upto December 31, 2016 to meet the eligibility criteria. They can continue to engage in bill payments activities during this period. If, however, such entities fail to meet the eligibility criteria by December 31, 2016, they will be required to become agents of the existing BBPOUs or exit the business of bill payments by May 31, 2017.

Banks:

Banks desirous of becoming BBPOUs will be required to submit a copy of the approval of their Board for undertaking this activity along with a letter seeking one time approval from the Department of Payment and Settlement Systems. Banks may also provide details of the type of billers and bill payments that is being handled and/or proposed to be handled by them as BBPOUs.

All entities (including banks) failing to apply for authorisation/ approval and continuing to engage in bill payment activities covered under the scope of BBPS would be treated as conducting the business in contravention of the BBPS guidelines issued under the Payment and Settlement Systems Act 2007 and may invite penal action by the Reserve Bank.

In order to address the queries received from interested entities, the Reserve Bank has also placed on its website a set of Frequently Asked Questions (FAQs) on Bharat Bill Payment System. Specific queries, if any, may be mailed to bbps@rbi.org.in till close of business on December 11, 2015.

https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=35552;
https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=35465;

https://www.rbi.org.in/scripts/FS_PressRelease.aspx?prid=35274

In-principle Approval to Three Entities for TReDS

The Reserve Bank on November 24, 2015 granted "in-principle" approval to three applicants to set up and operate Trade Receivables Discounting System (TReDS):

- NSE Strategic Investment Corporation Limited (NSICL) and Small Industries Development Bank of India (SIDBI), Mumbai
- Axis Bank Limited, Mumbai
- Mynd Solutions Pvt. Ltd., Gurgaon, Haryana

The "in-principle" approval granted will be valid for a period of six months, during which the applicants have to comply with the requirements under the Guidelines and fulfil the other conditions as may be stipulated by the Reserve Bank. On being satisfied that the applicants have complied with the requisite conditions laid down by the Reserve Bank as part of "in-principle" approval, granting of a Certificate of Authorisation for commencement of the business of TReDS would be considered.

Background

The Reserve Bank published a concept paper on "Micro, Small & Medium Enterprises (MSME) Factoring-Trade Receivables Exchange" in March 2014. Subsequently, the draft guidelines for setting up of and operating TReDS were released on July 22, 2014. Based on the feedback received from public/stakeholders, final guidelines were issued on December 3, 2014 under Payment and Settlement Systems (PSS) Act, 2007. Entities interested in setting up and operating TReDS were advised to apply for authorisation till February 13, 2015 which was further extended upto March 9, 2015. The names of applicants who had applied for setting up TReDS was released on March 25, 2015. TReDS will allow SMEs to post their receivables on the system and get them financed. This will not only give them greater access to finance but will also put greater discipline on corporates to pay their dues on time.

(https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=35551)

Foreign Exchange Management

Filing of Bulk SOFTEX

The Reserve Bank on November 19, 2015 allowed all software exporters to file single as well as bulk SOFTEX form in excel format to the competent authority for certification. Since the SOFTEX data from Software Technology Parks of India (STPI)/ Special Economic Zone (SEZ) is being transmitted in electronic format to the Reserve Bank, the exporters are required to submit the SOFTEX form in duplicate as per the revised procedure. STPI/SEZ will retain one copy and handover the duplicate copy to the exporters after due certification. As hitherto, the software exporters can generate SOFTEX form number (single as well as bulk) for use in off-site software exports from the Reserve Bank's website www.rbi.org.in. In order to generate the SOFTEX number/s, the applicant exporter has to fill-in the online form (www.rbi.org.in ⇒ Forms ⇒ FEMA Forms ⇒ Printing EDF/SOFTEX Form No.). (<https://rbi.org.in/Scripts/NotificationUser.aspx?Id=10113&Mode=0>)

Residents can hedge Foreign Currency Borrowings

With a view to facilitating hedging of long term foreign currency borrowings by residents, the Reserve Bank on November 19, 2015, permitted them to enter into foreign currency (FCY)-INR swaps with Multilateral or International Financial Institutions (MFI/IFI) in which the Government of India is a shareholding member subject to the following terms and conditions:

1. Such swap transactions shall be undertaken by the MFI / IFI concerned on a back-to-back basis with an authorised dealer (AD) category-I bank in India;
2. AD category-I banks shall face, for the purpose of the swap, only those MFIs and IFIs in which Government of India is a shareholding member;

3. The FCY-INR swaps shall have a minimum tenor of three years;
4. In the event of a default by the resident borrower on its swap obligations, the MFI / IFI concerned shall bring in foreign currency funds to meet its corresponding liabilities to the counterparty AD Cat-I bank in India;
5. AD Category-I bank shall report the FCY-INR swaps transactions entered into with the MFIs / IFIs on a back-to-back basis to CCIL reporting platform, including details of the foreign currency borrower.

(<https://rbi.org.in/Scripts/NotificationUser.aspx?Id=10114&Mode=0>)

Barter to Normal Trade with Myanmar

The Reserve Bank on November 19, 2015 decided to do away with the barter system of trade at the Indo-Myanmar border and switch over completely to normal trade with effect from December 1, 2015. Accordingly, all trade transactions with Myanmar, including those at the Indo-Myanmar border with effect from December 1, 2015 would be settled in any permitted currency in addition to the Asian Clearing Union mechanism.

(<https://rbi.org.in/Scripts/NotificationUser.aspx?Id=10112&Mode=0>)

Subscription to National Pension System by NRIs

With a view to enabling access of non-resident Indians (NRIs) to old age income security, the Reserve Bank on October 8, 2015 enabled National Pension System (NPS) as an investment option for NRIs under FEMA, 1999. Accordingly, NRIs may subscribe to the NPS governed and administered by the Pension Fund Regulatory and Development Authority (PFRDA), provided such subscriptions are made through normal banking channels and the person is eligible to invest as per the provisions of the PFRDA Act. The subscription amounts shall be paid by the NRIs either by inward remittance through normal banking channels or out of funds held in their Non-Resident (External) Rupee Account Scheme (NRE)/ Foreign Currency (Non-Resident) Account (Banks) Scheme (FCNR)/ Non-Resident Ordinary Rupee Account Scheme (NRO). There shall be no restriction on repatriation of the annuity/ accumulated savings.

(<https://rbi.org.in/Scripts/NotificationUser.aspx?Id=10093&Mode=0>)

Comments/Feedback

Working Group Report on Implementation of Ind A S

The Reserve Bank, on October 20, 2015 placed on its website the Report of the Working Group on the Implementation of Indian accounting standards (Ind AS) by Banks in India (Chair: Shri Sudarshan Sen, Principal Chief General Manager, Department of Banking Regulation).

The Working Group has structured its recommendations into the following key areas with focus on financial instruments:

- i. Classification and Measurement of Financial Assets
- ii. Classification and Measurement of Financial Liabilities
- iii. Hedge Accounting and Derivatives
- iv. Fair Value Measurement
- v. Impairment of Financial Assets
- vi. Presentation of Financial Statements and Disclosure
- vii. De-recognition, Consolidation and Other Residuary Issues

Suggestions/comments, if any, on the Report may be sent by post to the Principal Chief General Manager, Department of Banking Regulation, Central Office, Mumbai, or by email on or before November 30, 2015.