

# MONETARY & CREDIT INFORMATION REVIEW

Volume XVII Issue 10 January 2022



## I. Regulation

### Discussion Paper on Prudential Norms of Commercial Banks

The Reserve Bank on January 24, 2022 released the [Discussion Paper on Review of Prudential Norms for Classification, Valuation and Operations of Investment Portfolio of Commercial Banks](#) on its website ([www.rbi.org.in](http://www.rbi.org.in)) for comments from banks, market participants and other stakeholders by February 15, 2022. The Discussion Paper proposes to comprehensively align the prudential framework with global standards, while retaining some elements considering the domestic context. The key proposals are:

- The investment portfolio shall be categorised into three categories viz. Held to Maturity (HTM), Available for Sale (AFS) and Fair Value through Profit and Loss Account (FVTPL). Within FVTPL, Held for Trading (HFT) shall be a sub-category aligned with the specifications of 'Trading Book' as per the Basel III framework.
- Only debt instruments with fixed or determinable payments and fixed maturity with the intent of holding till maturity shall be classified under HTM. Non-SLR securities such as corporate bonds which satisfy these criteria can therefore be permitted to be held in HTM. As an exception, investments in the equity shares of subsidiaries, associates and joint ventures shall also be carried at cost under HTM.
- The ceiling on investments in HTM as a percentage to total investments as also the ceiling on SLR securities that can be held in HTM shall be dispensed with. However, the controls for sales out of HTM (barring certain existing exemptions) shall be tightened to ensure that the basic principles and tenets for classification of securities as HTM and valuing them at cost is not invalidated.
- Debt instruments which the bank intends to either hold till maturity or sell before maturity shall be eligible for AFS. Banks shall also have the irrevocable option to classify equity investments at initial recognition under AFS.
- FVTPL is the residual category *i.e.* all investments that do not qualify for inclusion in HTM or AFS shall be categorised as FVTPL. Illustratively, investments in Securitisation Receipts (SRs), mutual funds, alternate investment funds, equity shares (excluding certain exceptions), derivatives (including those undertaken for hedging), which do not have any contractually specified periodic cash flows that are solely payments of principal and interest on principal outstanding ('SPPI criterion') shall be classified as FVTPL. To read more, please click [here](#).

### Factoring Regulation Act, 2011

The Reserve Bank on January 20, 2022 issued the following regulations by exercising of the powers conferred under the Factoring Regulation Act:

- Registration of Factors (Reserve Bank) Regulations, 2022 issued vide Notification No. [DOR.FIN.080/CGM\(JPS\) – 2022](#) dated January 14, 2022 (published in Official Gazette – Extraordinary – Part-III, Section 4 dated January 17, 2022).
- Registration of Assignment of Receivables (Reserve Bank) Regulations, 2022 issued vide Notification No. [DOR.FIN.081/CGM\(JPS\) – 2022](#) dated January 14, 2022 (published in Official Gazette – Extraordinary – Part-III, Section 4 dated January 17, 2022).

Under the provisions of the above mentioned regulations, the Reserve Bank permitted all existing non-deposit taking NBFC-Investment and Credit Companies (NBFC-ICCs) with asset size of ₹1,000 crore and above to undertake factoring business subject to satisfaction of certain conditions. This will increase the number of NBFCs eligible to undertake factoring business significantly from 7 to 182. Other NBFC-ICCs can also undertake factoring business by registering as NBFC-Factor. Eligible companies may apply to the Reserve Bank for seeking registration under the Act. Further, in respect of trade receivables financed through a Trade Receivables Discounting System (TReDS), the particulars of assignment of receivables shall be filed with the central registry on behalf of the factors by the TReDS concerned within 10 days. To read more, please click [here](#).

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## Note from the Editor

Welcome to another edition of the Monetary and Credit Information Review (MCIR). This monthly periodical of the Reserve Bank helps keep abreast with new developments and important policy initiatives taken by the Reserve Bank during the month of January 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](mailto:mcir@rbi.org.in)

Yogesh Dayal  
Editor

## Basel III Framework

The Reserve Bank on January 06, 2022 decided to increase the threshold limit for deposits and other extensions of funds made by non-financial small business customers from ₹5 crore to ₹7.5 crore for the purpose of maintenance of Liquidity Coverage Ratio (LCR). This is done with an objective to better align our extant guidelines with the Basel Committee on Banking Supervision standard and enable banks to manage liquidity risk more effectively.

This modification is also applicable to deposits and other extensions of funds received from small business customers referred to in the circular DBR. BP.BC.No.106/21.04.098/2017 -18 dated May 17, 2018 on 'Basel III Framework on Liquidity Standards – Net Stable Funding Ratio (NSFR) – Final Guidelines'. This circular is applicable to all Commercial Banks other than Regional Rural Banks, Local Area Banks and Payments Banks. To read more, please click [here](#).

## Bank Finance to NBFCs

The Reserve Bank on January 05, 2022 issued a Master Circular on Bank Finance to Non-Banking Financial Companies with consolidated instructions up to January 04, 2022. To read more, please click [here](#).

## Domestic Systemically Important Banks

The Reserve Bank on January 04, 2022 announced the list of Domestic Systemically Important Banks (D-SIBs). SBI, ICICI Bank and HDFC Bank continue to be identified as Domestic Systemically Important Banks (D-SIBs), under the same bucketing structure as the previous year. The additional Common Equity Tier 1 (CET1) requirement for D-SIBs was phased-in from April 1, 2016 and became fully effective from April 1, 2019. The additional CET1 requirement will be in addition to the capital conservation buffer.

The list of D-SIBs is as follows:

Bucket	Banks	Additional CET1 requirement as a % of Risk Weighted Assets
5	-	1%
4	-	0.80%
3	SBI	0.60%
2	-	0.40%
1	ICICI Bank, HDFC Bank	0.20%

To read more, please click [here](#).

## Amalgamation Scheme

The Government of India on January 25, 2022 sanctioned and notified the scheme for the amalgamation of the Punjab and Maharashtra Co-operative Bank Ltd. (PMC Bank) with Unity Small Finance Bank Ltd. (USFBL). All the branches of the PMC Bank will function as branches of Unity Small Finance Bank Ltd. with effect from this date. The scheme of amalgamation envisages takeover of the assets and

liabilities of PMC Bank, including deposits, by the USFBL in terms of the provisions of the scheme. To read more, please click [here](#).

## Inclusion in the Second Schedule

The Reserve Bank on January 04, 2022 included Airtel Payments Bank Limited in the second schedule of the Reserve Bank of India Act, 1934 vide notification dated December 02, 2021 and published in the Gazette of India (Part III - Section 4) dated January 01 - January 07, 2022. To read more, please click [here](#).

## CICs (Amendment) Regulations, 2021

The Reserve Bank on January 05, 2022 released eligibility criteria for entities to be categorised as specified user of the credit information companies under clause (j) of Regulation 3 of the Credit Information Companies (Amendment) Regulations, 2021. This is in subsequent to the Credit Information Companies (Amendment) Regulations, 2021 published in the Gazette of India vide notification CG-DL-E-30112021-231472 dated November 29, 2021. To read more, please click [here](#).

## II. Payment and Settlement System

### Small Value Digital Payments

The Reserve Bank on January 03, 2022 placed, on its website, the 'Framework for Facilitating Small Value Digital Payments in Offline Mode'. The framework incorporates the feedback received from the pilot experiments on offline transactions conducted in different parts of the country during the period from September 2020 to June 2021.

An offline digital payment means a transaction which does not require internet or telecom connectivity. Under this new framework, such payments can be carried out face-to-face (proximity mode) using any channel or instrument like cards, wallets and mobile devices. Such transactions would not require an Additional Factor of Authentication (AFA). Since the transactions are offline, alerts (by way of SMS and / or e-mail) will be received by the customer after a time lag. Transactions are subject to a limit of ₹200 per transaction and an overall limit of ₹2000 for all transactions until balance in the account is replenished. Balance replenishment can only occur in an on-line mode. Offline mode of payment can be enabled only after obtaining specific consent of the customer. Customers shall enjoy protection under the provisions of circulars limiting customer liability issued by Reserve Bank (as amended from time to time). To read more, please click [here](#).

## III. Banker to Government

### Retail Direct Scheme – Market Making

The Reserve Bank on January 04, 2022 published a market making arrangement under the RBI Retail Direct Scheme to provide liquidity in the secondary market by enabling the Primary Dealers to remain present on the NDS-OM platform (odd-lot and request for quotes segments) throughout market hours and respond to buy/sell requests from Retail Direct Gilt Account Holders. The RBI Retail Direct Scheme was launched on November 12, 2021 to provide one-stop access to facilitate investment in Government Securities by retail investors. To read more, please click [here](#).

## IV. Consumer Education and Protection

### Integrated Ombudsman Scheme, 2022

The Reserve Bank on January 12, 2022 released the Annual Report of the Ombudsman Schemes for the year 2020-21. The Report has been prepared for the nine-month period, that is, July 1, 2020 to March 31, 2021, in alignment with the change in the Financial Year of the Reserve Bank from 'July – June' to 'April – March' with effect from July 1, 2020.

The Annual Report covers the activities under the Banking Ombudsman Scheme, 2006 (BOS), the Ombudsman Scheme for Non-Banking Financial Companies, 2018 (OSNBFC) and the Ombudsman Scheme for Digital Transactions, 2019 (OSDT), major developments and the way forward in the area of consumer protection. Some highlights from the Annual Report are as follows:

#### A. Activities under BOS, OSNBFC and OSDT

i) The volume of complaints received under all the three Ombudsman Schemes increased by 22.27 per cent on an annualized basis and stood at 3,03,107 during the reported period.

ii) The BOS accounted for 90.13 per cent of total complaints (that is 2,73,204) received under the three Ombudsman Schemes. The number of complaints received under OSNBFC and OSDT stood at 8.89 per cent and 0.98 per cent respectively, of the total number of complaints.

iii) The major areas of complaints under the BOS pertained to (a) ATM/debit cards; (b) mobile/electronic banking; and (c) credit cards, which collectively accounted for 42.74 per cent of the total number of complaints as compared to 44.65 per cent in the previous year. Under the OSNBFC, major areas of complaints were (a) non-adherence to Fair Practices Code; (b) non-observance to RBI directions; and (c) levy of charges without prior notice, accounting for 75.32 per cent of the complaints as compared to 63.23 per cent in the previous year.

iv) The overall disposal rate improved to 96.59 per cent from 92.52 per cent in the previous year, despite higher volume of complaints, which can be attributed to the end-to-end digitization of complaint processing in CMS.

v) Of the maintainable complaints, 72.67 per cent were resolved by mutual agreement that is through intervention of the Ombudsman offices/conciliation/mediation efforts.

#### B. Important developments during the year 2020-21

During the year, Consumer Education and Protection Department (CEPD) undertook the following initiatives for strengthening the grievance redress system:

i) A comprehensive framework on strengthening of grievance redress mechanism in banks, comprising of enhanced disclosures on customer complaints, recovery of cost of redress by Ombudsmen from the banks for the complaints received in excess of the respective peer group averages and annual review of grievance redress mechanisms of the banks was instituted.

ii) Substantial groundwork for integrating the three Ombudsman Schemes into the "Reserve Bank Integrated Ombudsman Scheme (RB-IOS), 2021", setting up of the Centralised Receipt and Processing Centre along with a Contact Center, revamping CMS in wake of launch of RB-IOS, 2021 and initiatives for improving effectiveness in resolution of consumer complaints was undertaken. The RB-IOS has since been launched by Hon'ble Prime Minister on November 12, 2021.

iii) Education and awareness campaigns were undertaken through print and electronic media.

#### C. Way forward

During the year April 1, 2021 to March 31, 2022 the following activities are planned:

i) Intensify initiatives towards consumer awareness and financial education.

ii) Improve quality and speed of complaint disposal by enhancing CMS capabilities.

iii) Undertake Annual Assessment of banks under the framework for strengthening grievance redress mechanism in banks and review the framework.

iv) Further consolidation of regulatory guidelines on Consumer Protection and Customer Service.

To read more, please click [here](#).

## V. Financial Stability

### FSDC Sub-Committee Meeting

Shri Shaktikanta Das, Governor, Reserve Bank of India, chaired the 28<sup>th</sup> meeting of the Sub-Committee of the Financial Stability and Development Council (FSDC) held on January 13, 2022 in Mumbai in virtual format. The Sub-Committee reviewed the major developments in the global and domestic economy as well as in various segments of the financial system and discussed the assessments of members about the scenario emerging from the third wave of the COVID-19 pandemic. The FSDC-SC also discussed various inter regulatory issues and matters relating to the use of Aadhaar based e-KYC and Aadhaar Enabled Payment System by regulated entities. It reviewed the activities of various technical groups under its purview and the functioning of State Level Coordination Committees (SLCCs) in various States/ UTs. The members resolved to maintain a close watch on the unfolding developments and act proactively to ensure that financial institutions and financial markets remain resilient amidst the challenges posed by the resurgence of the pandemic. To read more, please click [here](#).

## VI. RBI Publications

### RBI Working Papers

The Reserve Bank published five publications under its working paper series in the month of January 2022.

□ The first working paper titled "Stock Price Reaction on the Announcement of Basel Implementation: Evidence from Indian Banks" authored by Gaurav Seth, Supriya Katti and B.V. Phani evaluates the market reaction of different policy decisions taken by the Reserve Bank of India (RBI) to bring in major reforms in the Indian banking industry after the financial liberalisation to align its domestic regulations

with global Basel capital adequacy norms. These announcements are some of the important decisions that have brought in critical changes in the operations of Indian commercial banks; therefore, it is imperative to understand how the market perceives the implementation of Basel recommendations. To read the full working paper, please click [here](#).

□ The second working paper titled “Taking Cognisance of Households’ Inflation Expectations in India” authored by Devendra Pratap Singh, Aditya Mishra and Purnima Shaw emphasises the importance of capturing households’ inflation expectations. Based on the definition of rational expectations, it studies the characteristics of inflation expectations of households in India vis-à-vis those of households or consumers in developed and emerging economies. The study indicates that the properties of inflation expectations in India are similar to those in other countries, namely, USA, England, Japan, New Zealand, South Africa, the Czech Republic, the Philippines and Russia, except for the relatively higher bias in India than for most other economies. To read the full working paper, please click [here](#).

□ The third working paper titled “India’s External Commercial Borrowings: Determinants and Optimal Hedge Ratio” authored by Ranjeev examines the determinants of External Commercial Borrowings (ECBs) raised by firms in India and identifies an optimal hedge ratio for the ECBs portfolio. It finds that depreciation of the Indian rupee has an adverse impact on the issuance of ECBs in the short as well as long run. The optimal hedge ratio for the ECBs portfolio is estimated at 63 per cent for the periods of high volatility in the forex market. To read the full working paper, please click [here](#).

□ The fourth working paper titled “States’ Fiscal Performance and Yield Spreads on Market Borrowings in India” authored by Ramesh Jangili, N.R.V.V.M.K. Rajendra Kumar and Jai Chander constructs a composite index of States’ fiscal performance and examines if the constructed index can help in explaining the State Development Loan (SDL) yield spreads. Key fiscal parameters viz., deficit, debt, expenditure quality, revenue mobilisation efforts, and market liquidity of SDLs are considered for the composite index. The inclusion of both fiscal as well as market indicators makes the study unique and broadens the analysis. To read the full working paper, please click [here](#).

□ The fifth working paper titled “Quantifying Survey-based Qualitative Responses on Capacity Utilisation - An Analysis for India” authored by G.P. Samanta and Sayantika Bhowmick focuses on examining the efficacy of survey-based qualitative information on Capacity Utilisation (CU) in tracking or predicting quantitative estimates of CU, which helps to assess economic slack and provides useful into the overall demand situation, inflationary pressure and investment conditions prevailing in the economy. To read the full working paper, please click [here](#).



## RBI Bulletin

The Reserve Bank released its monthly Bulletin on January 17, 2022. The Bulletin consists of two speeches, four articles and current statistics. The four articles are:

### i) *State of the Economy*

As the world stepped into the new year, the path of the recovery in India as in the rest of the global economy encountered headwinds from a rapid surge in infections due to Omicron. Nonetheless, amidst upbeat consumer and business confidence and an uptick in bank credit, aggregate demand conditions stay resilient, while on the supply front, rabi sowing has exceeded last year’s level and the normal acreage. Manufacturing and several categories of services remain in expansion. More recently, expectations that Omicron may turn out to be more of a flash flood than a wave have brightened near-term prospects.

### ii) *Indian Agriculture: Achievements and Challenges*

The article highlights significant achievements of the agriculture sector and assesses that new emerging challenges warrant a second green revolution along with next-generation reforms.

### iii) *The Impact of Covid-19 Pandemic on Consumer Confidence in India*

Most countries witnessed a gradual uptick in consumer confidence after the major slump encountered when the Covid-19 pandemic first hit their shores, though it is yet to return to pre-pandemic levels in most countries. This article analyses the impact of the pandemic on consumer confidence in India, as gauged by the Reserve Bank’s Consumer Confidence Survey (CCS).

### iv) *Changing Dynamics of Foreign Direct Investment in India*

Foreign Direct Investment (FDI) plays a significant role in economic development of any country and supports economic growth by meeting the investment requirements of a capital deficit economy by bridging its saving-investment gap. The developed and emerging economies have made significant efforts for augmenting the information base on FDI, where valuation is a critical component. In India, major advancements have been made in this regard with the implementation of the Co-ordinated Direct Investment Survey (CDIS) of the International Monetary Fund (IMF) and compilation of Foreign Affiliate Trade Statistics (FATS). To read the Bulletin, please click [here](#).

## VII. Data Releases

Important Data Releases by the Reserve Bank in the month of January 2022 are as follows:

Sr. No.	Title
1)	<a href="#">Primary (Urban) Co-operative Banks’ Outlook 2020-21</a>
2)	<a href="#">Lending and Deposit Rates of Scheduled Commercial Banks for the month of January 2022</a>
3)	<a href="#">Sectoral Deployment of Bank Credit – December 2021</a>
4)	<a href="#">Data on ECB/FCCB/RDB for December 2021</a>
5)	<a href="#">India’s International Trade in Services for the Month of November 2021</a>
6)	<a href="#">Overseas Direct Investment for December 2021</a>