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**MONETARY AND CREDIT
INFORMATION REVIEW**

Banking Regulation

New Methodology for Interest Rate on Advances

The Reserve Bank advised banks to follow the guidelines, released on December 17, 2015, for computing interest rates on advances based on the marginal cost of funds, with effect from April 1, 2016. Apart from helping improve the transmission of policy rates into the lending rates of banks, these measures are expected to improve transparency in the methodology followed by banks for determining interest rates on advances. The guidelines are also expected to ensure availability of bank credit at interest rates which are fair to the borrowers as well as the banks. Further, marginal cost pricing of loans will help the banks become more competitive and enhance their long run value and contribution to economic growth.

Highlights:

- i. All rupee loans sanctioned and credit limits renewed with effect from April 1, 2016 will be priced with reference to the Marginal Cost of Funds based Lending Rate (MCLR) which will be the internal benchmark for such purposes.
- ii. The MCLR will be a tenor linked internal benchmark.
- iii. Actual lending rates will be determined by adding the components of spread to the MCLR.
- iv. Banks will review and publish their MCLR of different maturities every month on a pre-announced date.
- v. Banks may specify interest reset dates on their floating rate loans. They will have the option to offer loans with reset dates linked either to the date of sanction of the loan/credit limits or to the date of review of MCLR.
- vi. The periodicity of reset shall be one year or lower.
- vii. The MCLR prevailing on the day the loan is sanctioned will be applicable till the next reset date, irrespective of the changes in the benchmark during the interim period.
- viii. Existing loans and credit limits linked to the Base Rate may continue till repayment or renewal, as the case may be. Existing borrowers will also have the option to move to the Marginal Cost of Funds based Lending Rate (MCLR) linked loan at mutually acceptable terms.
- ix. Banks will continue to review and publish Base Rate as hitherto. (https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=35749) and (<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10179&Mode=0>)

Financial Inclusion

Report of Financial Inclusion Committee released

The Reserve Bank, on December 28, 2015, placed on its website, the Report of the Committee on Medium-term Path on Financial Inclusion (Chairman: Shri Deepak Mohanty). Comments may be emailed (cgmincidd@rbi.org.in or cmpfi@rbi.org.in) or sent by

post to the Principal Chief General Manager, Reserve Bank of India, Financial Inclusion and Development Department, 10th Floor, Central Office Building, Shahid Bhagat Singh Marg, Mumbai-400001 by January 29, 2016. (<https://rbi.org.in/Scripts/PublicationReportDetails.aspx?UrlPage=&ID=836>)

Foreign Exchange Management

Revised Framework for ECB Policy announced

The Reserve Bank, in consultation with the Government of India, revised on November 30, 2015, the extant External Commercial Borrowing (ECB) framework. The operational guidelines for the revised framework will come into force with effect from the date of publication of the relative Regulation framed under FEMA, 1999 in the official gazette. (<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10153&Mode=0>)

Investment by FPIs in Corporate Bonds

The Reserve Bank, on November 26, 2015, permitted Foreign Portfolio Investors (FPIs) to acquire non-convertible debentures (NCDs)/bonds, which are under default, either fully or partly, in the repayment of principal on maturity or principal instalment in the case of amortising bond. The revised maturity period of such NCDs/bonds, restructured based on negotiations with the issuing Indian company, should be three years or more. (<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10147&Mode=0>)

Helpline for guiding Start-ups in India on Forex Matters

The Reserve Bank has created a dedicated helpline (email id: helpstartup@rbi.org.in) for start-ups in India in order to offer guidance/assistance to them for undertaking cross-border transactions within the ambit of the regulatory framework. (https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=35793)

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Highlights of Banking and...

January 2015

- To ensure transparency in the promotional material and to build an enduring relationship with the customers, the Reserve Bank on January 2, 2015 advised all authorised entities operating a payment system within the country that - (i) all the information available to the public regarding the product, whether as advertisements, on website, application form, to prominently carry the name of the entity/company authorised by the Reserve Bank under the Payment and Settlement Act, 2007 and (ii) the authorised entities/companies to regularly keep the Reserve Bank informed regarding the brand names employed / to be employed for their products.
- The Reserve Bank on January 7, 2015, modified the master circular on wilful defaulters to bring in greater transparency and accountability and in the process required to be adopted for identification of wilful defaulters.
- The Reserve Bank, on January 15, 2015, permitted banks to undertake insurance business by setting up a subsidiary/joint venture, as well as undertake insurance broking/ insurance agency/either departmentally or through a subsidiary subject to certain conditions.
- In order to further enhance transparency in pricing of credit, the Reserve Bank advised all banks on January 22, 2015, to display on their website, among others, –(i) the interest rate range of contracted loans for the past quarter for different categories of advances granted to individual borrowers along with mean interest rates for such loans; (ii) the total fees and charges applicable on various types of loans to individual borrower; and (iii) Annual Percentage Rate (APR) or such similar other arrangement of representing the total cost of credit on a loan to an individual borrower.

February 2015

- The Reserve Bank, on February 4, 2015, announced the names of the members of the External Advisory Committee (EAC) for small finance banks and of the External Advisory Committee for payments banks.
- The Reserve Bank, on February 5, 2015 placed on its website the final guidelines for implementation of Countercyclical Capital Buffer (CCCB) in India.
- The Reserve Bank, on February 12, 2015 released the Annual Report of the Banking Ombudsman Scheme for the year 2013-2014. The report highlights various customer service initiatives by the Reserve Bank and some exemplary cases dealt with by offices of Banking Ombudsman during the year.
- The Reserve Bank in February 2015 put in circulation currency notes in one rupee denomination, printed by the Government of India. These currency notes are legal tender as provided in The Coinage Act 2011.

March 2015

- The Reserve Bank released the Report of the Internal Working Group to Revisit the Existing Priority Sector Lending Guidelines (Chair: Lily Vadera, Chief General Manager, Department of Banking Regulation) on March 2, 2015.
- With a view to encourage availability of affordable housing to economically weaker sections (EWS) and low income groups (LIG) borrowers, the Reserve Bank issued instructions on March 5, 2015 that in cases where the cost of the house/dwelling unit does not exceed ₹10 lakh, banks may add stamp duty, registration and other documentation charges to the cost of the house/dwelling unit for the purpose of calculating Loan to Value (LTV) ratio.
- The Reserve Bank, on March 11, 2015, advised banks to meticulously adhere to the guidelines on managing risks as applicable in outsourcing of financial services. The banks also need to take steps to ensure that the service provider employs the same high standard of care in performing the services as would be employed by the banks, if the activities were conducted within the banks and not outsourced.

April 2015

- The Reserve Bank, on April 10, 2015, issued revised guidelines for Priority Sector Lending after deliberating on the comments / suggestions received from Government of India, banks, and other stakeholders.
- The Reserve Bank, on April 16, 2015, permitted all scheduled commercial banks (excluding RRBs) to offer differential interest rates based on whether the term deposits are with or without-premature-withdrawal-facility, subject to certain guidelines.

- The Reserve Bank advised authorised dealers category-I (AD Category- I) banks that with effect from on April 8, 2015, foreign direct investment (FDI) in insurance sector shall be permitted up to 49 percent subject to the revised conditions.
- The Reserve Bank, on April 23, 2015, simplified the instructions for setting up of new currency chests-“Construction of Currency Chests Strong Rooms /Vaults”.

May 2015

- The Reserve Bank advised all scheduled commercial banks (excluding regional rural banks) and all India select financial institutions to follow the ‘Framework for fraud risk management in banks’ with effect from May 7, 2015
- The Reserve Bank on May 11, 2015 advised all public sector banks and select private sector and foreign banks to appoint an internal ombudsman, designated as Chief Customer Service Officer (CCSO) to further boost the quality of customer service and to ensure that there is undivided attention to resolution of customer complaints in banks.
- The Reserve Bank on April 30, 2015 dispensed with the requirement of prior approval from the Reserve Bank and the minimum eligibility criteria for non-banking financial companies (NBFCs) to distribute mutual fund products. The Reserve Bank on May 14, 2015 in consultation with the Government of India, allowed entry of the Infrastructure Debt Fund-Non-Banking Financial Companies (IDF-NBFCs) into sectors even where there is no presence of a Project Authority.
- The Reserve Bank, on May 14, 2015, advised on the relaxation in requirement of additional factor of authentication (AFA) for small value card present transactions (SVCP) for values up to 2,000/- per transaction across all merchant categories.

June 2015

- In order to enable private sector banks to attract and retain professional directors, the Reserve Bank, on June 1, 2015, issued guidelines on compensation for non-executive Directors for implementation by private sector banks, that will reflect market realities and will be within the parameters specified in the Banking Regulation Act, 1949 and the Companies Act, 2013.
- The Reserve Bank, on June 1, 2015, permitted all banks authorised to deal in foreign exchange/ all authorised money changers (AMCs) / full-fledged money changers (FFMCs) to allow remittances by a resident individual up to USD 250,000 per financial year for any permitted current or capital account transaction or a combination of both.
- The Reserve Bank, on June 8, 2015, advised that under the “Framework for Revitalising Distressed Assets in the Economy – Guidelines on Joint Lenders’ Forum (JLF) and Corrective Action Plan (CAP)”, issued on February 26, 2014, the Joint Lenders’ Forum (JLF) should actively consider change in ownership, in cases of restructuring of accounts when the borrower companies are not able to come out of stress due to operational/ managerial inefficiencies despite substantial sacrifices made by the lending banks.
- The Reserve Bank, on June 12, 2015, released the final guidelines for introduction of 6-year and 13-year cash settled Interest Rate Futures (IRF) on Government of India Securities with residual maturity of 4-8 years and 11-15 years, respectively. It also expanded the residual maturity for the existing 10-year cash settled IRF from 9-11 years to 8-11 years.
- The Reserve Bank, on June 25, 2015, issued ₹ 100 denomination banknotes in Mahatma Gandhi Series – 2005 with a new numbering pattern. In these notes, the numerals in both the number panels of these banknotes are in ascending size from left to right, while the first three alphanumeric characters (prefix) remain constant in size.

July 15, 2015

- The Reserve Bank, on July 9, 2015, issued the final guidelines on Prepaid Payment Instruments for Mass Transit System (PPI-MTS) enabling the issuance of a separate category of semi-closed prepaid payment instruments for mass transit systems. The PPI-MTS can be used within the mass transit systems and will have a minimum validity of six months from date of issue. Apart from the mass transit system, such PPI-MTS can be used at other merchants whose activities are allied to or are carried on within the premises of the transit system.

...Financial Developments in 2015

- The Reserve Bank, on July 15, 2015, announced the constitution of a Committee (Chairman-Shri Deepak Mohanty, Executive Director) with the objective of working out a medium-term (five year) measurable action plan for financial inclusion.
- The Reserve Bank, on July 16, 2015, revised the guidelines for concurrent audit system in commercial banks, in view of the changes in banks' organisational structure, business models and use of technology (implementation of Core Banking Solution).
- As part of the endeavour to smoothen the liquidity management operations, the Reserve Bank, on July 27, 2015 introduced Straight Through Processing (STP) in fixed rate Liquidity Adjustment Facility (LAF) Repo, fixed rate LAF Reverse Repo and Marginal Standing Facility (MSF) operations.
- The Reserve Bank, on July 30, 2015, permitted primary (urban) co-operative banks to offer services that can be offered via a standardised ATM machine like bill payments, account transfers at their on-site / off-site / mobile ATMs.

August 2015

- The Reserve Bank, on August 6, 2015, dispensed with the existing instructions permitting domestic scheduled commercial banks (excluding regional rural banks) to undertake merger, closure, shifting, part-shifting, opening of extension counters and reporting in accordance with certain instructions.
- The Reserve Bank, on August 19, 2015 granted "in-principle" approval to 11 applicants to set up payments banks under the Guidelines for Licensing of Payments Banks issued on November 27, 2014.
- The Central Government on August 20, 2015, declared the second and the fourth Saturday of every month as public holiday for banks in India, whether or not such banks are included in the Second Schedule to the Reserve Bank of India Act, 1934 (2 of 1934), with effect from September 1, 2015. Banks will, however, function full time as on any working day on first, third and fifth Saturday of every month.
- The Reserve Bank, on August 20, 2015 placed on its website the Report of the High Powered Committee on Urban Co-operative Banks (UCBs) (Chairman: Shri R. Gandhi).
- The Reserve Bank, on August 27, 2015, advised scheduled commercial banks (excluding regional rural banks) to put in place Board approved policy on lending to Micro and Small Entrepreneurs (MSEs), adopting an appropriate system of timely and adequate credit delivery to borrowers in the MSE segment within the broad prudential regulations of the Reserve Bank.
- The Reserve Bank, on August 27, 2015 enhanced the limit for cash withdrawal at Point of Sale (POS -for debit cards and open system prepaid cards issued by banks in India) from ₹ 1000/- to ₹ 2000/- per day in Tier III to VI centres. Customer charges, if any, levied on cash withdrawals shall not exceed one per cent of the transaction amount at all centres irrespective of the limit of ₹ 1000 / ₹ 2000.
- The Reserve Bank announced the designation of State Bank of India and ICICI Bank Ltd. as Domestic Systemically Important Banks (D-SIBs) on August 31, 2015.

September 2015

- As a part of continuous assessment of the effectiveness of the Framework for Revitalising Distressed Assets in the Economy and review of its guidelines on Joint Lenders' Forum (JLF) and Corrective Action Plan (CAP), as also based on the feedbacks received from banks, the Reserve Bank on September 24, 2015 introduced certain changes/additions in the framework pertaining to Joint Lenders' Forum Empowered Group (JLF – EG); Restructuring of Doubtful Accounts under JLF; Disagreement on Restructuring as CAP and Exit Option; Duration of Application of Extant Penal Provisions and Strategic Debt Restructuring Scheme, to make it more effective.
- The Reserve Bank, on September 16, 2015, granted "in-principle" approval to ten applicants to set up small finance banks under the "Guidelines for Licensing of Small Finance Banks in the private sector" issued on November 27, 2014.

- In order to streamline the existing processes and to obviate the need to approach the Reserve Bank on case-to-case basis, the Reserve Bank on September 16, 2015, permitted commercial banks to grant loans and advances to the Chief Executive Officer/ Whole Time Directors, without seeking prior approval of the Reserve Bank, subject to certain conditions.
- The Reserve Bank on September 24, 2015, put into circulation banknotes in the denominations of ₹ 500 and ₹ 1000 incorporating three new/revised features - (i) ascending size of numerals in the number panels, (ii) bleed lines, and (iii) enlarged identification mark.
- The Reserve Bank, on September 24, 2015, allowed scheduled commercial banks (excluding RRBs), all-India term-lending and refinancing institutions (Exim Bank, NABARD, NHB and SIDBI) to upgrade the credit facilities extended to borrowing entities whose ownership has been changed outside Strategic Debt Restructuring Scheme (SDR), to 'Standard' category upon such change in ownership, subject to the certain conditions laid down in the Guidelines, including change in ownership of the borrowing entities.
- The Reserve Bank, on September 29, 2015 placed a framework for issuance of Rupee denominated bonds overseas within the overarching ECB policy.

October 2015

- The Reserve Bank, on October 6, 2015 announced a Medium Term Framework (MTF) for Foreign Portfolio Investors (FPIs) limits in Government securities.
- The Reserve Bank, on October 15, 2015 advised Primary (Urban) Co-operative Banks/ State and Central Co-operative Banks on the constitution of the Financial Inclusion Fund, on merger of Financial Inclusion Fund (FIF) and Financial Inclusion Technology Fund (FITF).
- The Reserve Bank, on October 20, 2015 invited applications for authorisation from entities (from non-bank entities and banks) currently engaged in bill payments and desirous of operating as Bharat Bill Payment System Operating Units (BBPOUs) under the Bharat Bill Payment System (BBPS).
- The Reserve Bank, on October 22, 2015 directed all scheduled commercial banks (excluding regional rural banks) on implementation of the Gold Monetisation Scheme, 2015 (GMS) notified by the Central Government.

November 2015

- 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.
- 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.
- 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 certain terms and conditions.
- 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 Reserve Bank on November 24, 2015 granted "in-principle" approval to three applicants, namely, NSE Strategic Investment Corporation Limited (NSICL) and Small Industries Development Bank of India (SIDBI), Mumbai, Axis Bank Limited, Mumbai and Mynd Solutions Pvt. Ltd., Gurgaon, Haryana, to set up and operate Trade Receivables Discounting System (TReDS).

December 2015

- The Reserve Bank on December 17, 2015, announced the Marginal Cost of Funds Methodology for Interest Rate on Advances.
- The Reserve Bank on December 10, 2015, introduced exchange traded option contracts in the currency pairs of EUR (Euro)-USD (US Dollar), GBP (Pound Sterling)-US Dollar and US Dollar -JPY (Japanese Yen).

Happy New Year

Changes in Monetary Policy Framework

The year 2015 witnessed some changes in the conduct of monetary policy and the changes were:

- On February 20, 2015, the Government of India and the Reserve Bank signed an agreement on the Monetary Policy Framework.
- The agreement makes price stability the primary objective of monetary policy; defines price stability numerically - below 6 per cent CPI inflation for 2015-16 (to be achieved by January 2016) and 4 +/- 2 per cent for all subsequent years; sets out what will constitute a failure in achieving the target; and specifies that the Reserve Bank in the event of failure will report to the government on: (a) reasons for deviation of inflation from the target over three consecutive quarters, (b) remedial measures, and (c) an estimated time frame over which inflation will be brought back to the target.

- Greater transparency on monetary policy necessitated release of Monetary Policy Reports (MPRs) - released on April 2015 and then on September 2015.
- To create conditions for more effective transmission of monetary policy, the export credit refinance (ECR) facility was replaced with the provision of system level liquidity with effect from February 7, 2015.
- A new liquidity management framework was put in place to ensure market-based liquidity operations through auctions, while striving to ensure consistency of liquidity conditions with the stance of monetary policy.

Changes in Monetary Policy in 2015

On the basis of an assessment of the current and evolving macro-economic situation, the Reserve Bank reviewed its Monetary Policy 8 times. The Reserve Bank in the year 2015, acted outside the monetary policy twice-once on January 15, 2015 and then on March 4, 2015:

Monetary Policy Review	Policy Repo Rate under the Liquidity Adjustment Facility (LAF)	Cash Reserve Ratio (CRR) of Scheduled Banks of net demand and time liability (NDTL)	Statutory Liquidity Ratio (SLR) of Scheduled Commercial Banks	Liquidity under 7-day and 14-day term repos of NDTL of the banking system	Liquidity under overnight repos under the LAF
Statement on Monetary Policy on January 15, 2015	7.75 per cent, reduced by 25 basis points from 8.0 per cent with immediate effect	4.0 per cent, kept unchanged	22.0 per cent kept unchanged	Continued to provide liquidity under 7-day and 14-day term repos of up to 0.75 per cent of NDTL of the banking system through auctions	Continued to provide liquidity under overnight repos at 0.25 per cent of bank-wise NDTL at the LAF repo rate
Sixth Bi-Monthly Monetary Policy, on February 3, 2015	7.75 per cent, kept unchanged	4.0 per cent, kept unchanged	Reduced SLR of scheduled commercial banks by 50 basis points from 22.0 per cent to 21.5 per cent of their NDTL with effect from the fortnight beginning February 7, 2015;	Status quo	Status quo
Statement on Monetary Policy on March 4, 2015	7.5 per cent, reduced by 25 basis points from 7.75 per cent with immediate effect	4.0 per cent, kept unchanged	21.5 per cent kept unchanged	Status quo	Status quo
First Bi-monthly Policy Statement for the year 2015-16 on April 7, 2015	7.5 per cent, kept unchanged	4.0 per cent, kept unchanged	21.5 per cent kept unchanged	Status quo	Status quo
Second Bi-Monthly Monetary Policy June 2, 2015	7.25 per cent, reduced by 25 basis points from 7.5 per cent with immediate effect	4.0 per cent, kept unchanged	21.5 per cent kept unchanged	Status quo	Status quo
August 4, 2015	7.25 per cent, kept unchanged	4.0 per cent, kept unchanged	21.5 per cent kept unchanged	Status quo	Status quo
September 29, 2015	6.75 per cent, reduced by 50 basis points from 7.25 per cent with immediate effect	4.0 per cent, kept unchanged	21.5 per cent kept unchanged @	Status quo	Status quo
December 1, 2015	6.75 per cent, kept unchanged	4.0 per cent, kept unchanged	21.5 per cent kept unchanged	Status quo	Status quo

@ As announced on September 29, 2015, the SLR will be brought down by 0.25 per cent every quarter from April 2016 till March 31, 2017. Accordingly the SLR will be 21.25 per cent from April 2, 2016; 21.00 per cent from July 9, 2016; 20.75 per cent from October 1, 2016; and 20.50 per cent from January 7, 2017.