R.No. MAHENG/2004/14130
Regd. No. MH/MR/South-30/2012-14

Volume XII ♦ Issue 10
April 2016

MONETARY AND CREDIT INFORMATION REVIEW

Banking Regulation

Provisioning pertaining to Fraud Accounts

The Reserve Bank of India on April 18, 2016 amended the provisioning norms in respect of all cases of fraud, as under:

a) Banks should normally provide for the entire amount due to the bank or for which the bank is liable (including in case of deposit accounts), immediately upon a fraud being detected. While computing the provisioning requirement, banks may adjust financial collateral eligible under Basel III Capital Regulations - Capital Charge for Credit Risk (Standardised Approach), if any, available with them with regard to the accounts declared as fraud account;

b) To smoothen the effect of such provisioning on quarterly profit and loss, banks have the option to make the provisions over a period, not exceeding four quarters, commencing from the quarter in which the fraud has been detected;

c) Where the bank chooses to provide for the fraud over two to four quarters and this results in the full provisioning being made in more than one financial year, banks should debit 'other reserves' [i.e., reserves other than the one created in terms of Section 17(2) of the Banking Regulation Act 1949] by the amount remaining un-provided at the end of the financial year by credit to provisions. However, banks should proportionately reverse the debits to 'other reserves' and complete the provisioning by debiting profit and loss account, in the subsequent quarters of the next financial year;

d) Banks shall make suitable disclosures with regard to number of frauds reported, amount involved in such frauds, quantum of provision made during the year and quantum of unamortised provision debited from 'other reserves' as at the end of the year. (https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10352&Mode=0)

Master Directions

During the month of April 2016, the Reserve Bank issued the following Master Directions (MD):

Amalgamation of Private Sector Banks

The Reserve Bank on April 21, 2016, issued Master Directions (MD) on Amalgamation of Private Sector Banks in an attempt to consolidate all relevant instructions issued by the Reserve Bank so far on "Amalgamation of Private Sector Banks". The Master Directions will be applicable to all private sector banks licensed to operate in India by the Reserve Bank and to the extent appropriate to the Non-Banking Financial Companies (NBFC) registered with the Reserve Bank and public sector banks. (https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=36788)

Issue and Pricing of Shares by Private Sector Banks

The Reserve Bank on April 21, 2016 issued the Master Directions on Issue and Pricing of shares by Private Sector Banks in an attempt to consolidate all relevant instructions issued by the Reserve Bank so far on the subject. The Master Directions will be applicable to all private sector banks licensed to operate in India by the Reserve Bank. (https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=36786)

Guidelines on Investment Advisory Services

The Reserve Bank on April 21, 2016 advised that banks desirous of offering Investment Advisory Services (IAS) may do so either through a separate subsidiary set up for the purpose or one of the existing subsidiaries after ensuring that there is an arm's length relationship between the bank and the subsidiary. Other guidelines in this regard are:

- The sponsor bank should obtain specific prior approval of Department of Banking Regulation before offering IAS through an existing subsidiary or for setting up a subsidiary for this purpose. (Setting up of any subsidiary will, as hitherto, be subject to the extant guidelines on para-banking activities of banks).
- All bank sponsored subsidiaries offering IAS will be registered with SEBI and regulated as per the SEBI (Investment Advisors) Regulations, 2013, and shall adhere to all relevant SEBI rules and regulations in this regard.
- IAS provided by the bank sponsored subsidiaries should only be for the products and services in which banks are permitted to deal in as per Banking Regulation Act, 1949.
- The instructions/guidelines on KYC/AML/CFT applicable to the subsidiary, issued by the concerned regulator, as amended from time to time, may be adhered to in respect of customers to whom IAS is being provided.
- Banks which are presently offering IAS may reorganise their operations in accordance with these guidelines within a period of three years from the date of issue of this circular.(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10360&Mode=0)

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Financial Inclusion and Development

RBI issues Instructions on PSLCs

The Reserve Bank on April 7, 2016 issued instructions on trading in Priority Sector Lending Certificates (PSLCs). The purpose was to enable banks to achieve the priority sector lending target and sub-targets by purchase of these instruments in the event of shortfall and at the same time incentivise the surplus banks; thereby enhancing lending to the categories under priority sector. The Reserve Bank also launched a platform to enable trading in the certificates through its Core Banking Solution (CBS) portal (e-Kuber). All scheduled commercial banks (including regional rural banks), urban co-operative banks, small finance banks (when they become operational) and local area banks are eligible to participate in the trading. The certificates will have a standard lot size of ₹25 lakh and multiples thereof. There will be no transfer of credit risk on the underlying and the settlement of funds will be done through the e-Kuber portal. The detailed user guidelines for trading on the platform are also available on the portal.

Other Details on PSLCs

Nature of the Instruments: The seller will be selling fulfillment of priority sector obligation and the buyer would be buying the same. There will be no transfer of risks or loan assets.

Types of PSLCs- Four kinds of PSLCs, namely, PSLC - Agriculture, PSLC – Small & Marginal Farmers, PSLC – Micro Enterprises and PSLC - General can be bought and sold via the platform. To avoid computational issues in assessing the achievement/shortfall of PSL targets,the Reserve Bank has advised that the above four types of certificates will represent specific loans and count for specific sub-targets/targets as indicated. Thus, a bank having shortfall in achievement of any sub-target (e.g. SF/MF, Micro), will have to buy the specific PSLC to achieve the target. However, if a bank is having shortfall in achievement of the overall target only, as applicable to it, may buy any of the available PSLCs.

Caution Public against Dubious Schemes : RBI tells Banks

The Reserve Bank on April 21, 2016 advised banks in their own interest and as customer education effort in the interest of the public, to consider designing suitable posters or pamphlets or flyers or notices containing following messages:

- Never respond to unsolicited offers of money received through emails/phone/other media*
- No one really gives you money for free*
- Be careful while investing in seemingly attractive schemes offering high returns*
- Don't invest in unregulated companies/entities*
- Don't rely on hearsay - Check for yourself*
- High return means higher risk including potential loss of entire money – Check your risk-appetite!*
- Take care of your money – It is hard to earn but easy to lose*
- When in doubt check with a trusted financial adviser*

Wherever feasible, such messages may be displayed or distributed in the bank branches (in the official language of the state) for easy notice by the customers. Since bank branches are vantage points where members of public visit, it will help to disseminate the information to the public. Banks may consider places like Automated Teller Machines or Business Correspondent Points where such messages could get wider visibility. This would also be beneficial to the bank as their customers would be aware and vigilant of any such fraudulent schemes/calls.(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10359&Mode=0)

*For any clarification, visit www.rbi.org.in or www.sebi.gov.in or www.irda.gov.in

Computation of PSL achievement: A bank's PSL achievement would be computed as the sum of outstanding priority sector loans, and the net nominal value of the PSLCs issued and purchased. Such computation will be done separately where sub targets are prescribed as on the reporting date.

Amount eligible for issue: Normally PSLCs will be issued against the underlying assets. However, with the objective of developing a strong and vibrant market for PSLCs, a bank is permitted to issue PSLCs upto 50 percent of previous year's PSL achievement without having the underlying in its books.

Credit Risk: There will be no transfer of credit risk on the underlying as there is no transfer of tangible assets or cash flow.

All PSLCs will expire by March 31 and will not be valid beyond the reporting date (March 31st), irrespective of the date it was first sold. Both seller and buyer shall report the amount of PSLCs (category-wise) sold and purchased during the year in the 'Disclosures to the Balance Sheet'. (https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10339&Mode=0)

Foreign Exchange Management

Foreign Investment in Units of Investment Vehicles

The Reserve Bank on April 21, 2016 has decided, in consultation with the Government of India, to allow foreign investment in the units of Investment Vehicles registered and regulated by SEBI or any other competent authority. At present, Investment Vehicle will include the following:

- Real Estate Investment Trusts (REITs) registered and regulated under the SEBI (REITs) Regulations 2014;
- Infrastructure Investment Trusts (InvITs) registered and regulated under the SEBI (InvITs) Regulations, 2014;
- Alternative Investment Funds (AIFs) registered and regulated under the SEBI (AIFs) Regulations 2012.

Further, unit shall mean beneficial interest of an investor in the Investment Vehicle and shall include shares or partnership interests.

The salient features of the new investment regime are:

i. A person resident outside India including a Registered Foreign Portfolio Investor (RFPI) and a Non-Resident Indian (NRI) may invest in units of Investment Vehicles.

ii. The payment for the units of an Investment Vehicle acquired by a person resident or registered / incorporated outside India shall be made by an inward remittance through the normal banking channel including by debit to an NRE or an FCNR account.

iii. A person resident outside India who has acquired or purchased units in accordance with the regulations may sell or transfer in any manner or redeem the units as per regulations framed by SEBI or directions issued by RBI.

iv. Downstream investment by an Investment Vehicle shall be regarded as foreign investment if either the sponsor or the Manager or the Investment Manager is not Indian 'owned and controlled' as defined in Regulation 14 of the Principal Regulations.

v. In case the sponsors or managers or investment managers are organised in a form other than companies or LLPs, SEBI shall determine whether the sponsor or manager or investment manager is foreign owned and controlled.

vi. The extent of foreign investment in the corpus of the Investment Vehicle will not be a factor to determine as to whether downstream investment of the Investment Vehicle concerned is foreign investment or not.

vii. Downstream investment by an Investment Vehicle that is reckoned as foreign investment shall have to conform to the sectoral caps and conditions / restrictions, if any, as applicable to the company in which the downstream investment is made as per the FDI Policy or Schedule 1 of the Principal Regulations.

viii. Downstream investment in an LLP by an Investment Vehicle that is reckoned as foreign investment has to conform to the provisions of Schedule 9 of the Principal Regulations as well as the extant FDI policy for foreign investment in LLPs.

ix. An Alternative Investment Fund Category III with foreign investment shall make portfolio investment in only those securities or instruments in which a RFPI is allowed to invest.

x. The Investment Vehicle receiving foreign investment shall be required to make such report and in such format to Reserve Bank of India or to SEBI as may be prescribed by them from time to time. (https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10358&Mode=0)

Computation and Dissemination of RBI Reference Rate

The Reserve Bank compiles and publishes on a daily basis the Reference Rate for Spot USD/INR. Under the existing methodology, the rate is arrived at through a polling process involving rates obtained from select banks.

As announced in the First Bi-monthly policy statement for the year 2016-17, the Reserve Bank revised the existing methodology for computation of the RBI Reference Rate by making the following changes:

- The rate for spot US Dollar against the Indian Rupee will be computed on the basis of the Volume Weighted Average of the actual market transactions that have taken place during a randomly selected 15 minute window between 11.30 a.m. and 12.30 p.m. every week- day (excluding Saturdays, Sundays and Bank Holidays in Mumbai).
- The transactions data from electronic trading platforms, obtained by RBI, would be used for computation of the USD/INR Reference Rate.
- In case the required transactions data is not available on account of technical failure/snag or for any other reason, RBI may, in that case, compute the USD/INR Reference Rate by conducting polling of rates from select major banks as at present.
- The other three Reference Rates viz EUR/INR, GBP/INR and JPY/INR would continue to be computed by crossing the USD/INR Reference Rate with the ruling EUR/USD, GBP/USD and USD/JPY rates.
- The span of the time window will be increased from 15 minutes over a period of time on the basis of the experience gained.
- The daily press release of the RBI Reference Rate of US Dollar will be issued every week- day (excluding Saturdays, Sundays and Bank Holidays in Mumbai) at around 1.30 p.m.

These changes shall come into effect from May 2, 2016 (Monday).

Background

The Reserve Bank had constituted a Committee on Financial Benchmarks (Chairman: Shri P. Vijaya Bhaskar) to study the various issues relating to financial benchmarks in India and the committee had also reviewed the process of computation and dissemination of Rupee Reference Rate published by the Reserve Bank. The Committee had recommended that the USD/INR Reference Rate of the Reserve Bank should be derived based on the actual market transactions so as to ensure that the Reference Rate appropriately represents the prevailing spot rate.

(https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=36787)

Issuance of Rupee Denominated Bonds Overseas

The Reserve Bank, in its Monetary Policy Statement announced on April 5, 2016, had fixed the current limit of USD 51 billion for foreign investment in corporate debt in Rupee terms at ₹ 2443.23 billion. Issuance of Rupee denominated bonds overseas will be within this aggregate limit of foreign investment in corporate debt.

As the overall limit is now prescribed in Rupee terms, the Reserve Bank on April 13, 2016, modified the instructions with regard to issuance of Rupee denominated bonds overseas as under:

- The maximum amount which can be borrowed by an entity in a financial year under the automatic route by issuance of these bonds will be ₹ 50 billion and not USD 750 million. Proposals to borrow beyond ₹ 50 billion in a financial year will require prior approval of the Reserve Bank.
- The criteria for investors and location for issuance of these bonds has been modified in order to have consistency regarding eligibility of foreign investors in corporate debt.
- The minimum maturity period for Rupee denominated bonds issued overseas has been reduced to three years in order to align with the maturity prescription regarding foreign investment in corporate bonds through the Foreign Portfolio Investment (FPI) route.
- Borrowers issuing Rupee denominated bonds overseas should incorporate clause in the agreement / offer document so as to enable them to obtain the list of primary bond holders and provide the same to the regulatory authorities in India as and when required. (https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10351&Mode=0)

First Bi-monthly Monetary Policy Statement, 2016-17

On the basis of an assessment of the current and evolving macroeconomic situation, the Reserve Bank in its first Bi-monthly Monetary Policy Statement, 2016-17, announced on April 5, 2016, decided to:

- Reduce the policy repo rate under the Liquidity Adjustment Facility (LAF) by 25 basis points from 6.75 per cent to 6.5 per cent;
- Reduce the minimum daily maintenance of the cash reserve ratio (CRR) from 95 per cent of the requirement to 90 per cent with effect from the fortnight beginning April 16, 2016, while keeping the CRR unchanged at 4.0 per cent of Net Demand and Time Liabilities (NDTL);
- Continue to provide liquidity as required but progressively lower the average ex ante liquidity deficit in the system from one per cent of NDTL to a position closer to neutrality; and
- Narrow the policy rate corridor from +/-100 basis points (bps) to +/- 50 bps by reducing the MSF rate by 75 basis points and increasing the reverse repo rate by 25 basis points, with a view to ensuring finer alignment of the Weighted Average Call Rate (WACR) with the repo rate;

Consequently, the reverse repo rate under the LAF stands adjusted to 6.0 per cent, and the marginal standing facility (MSF) rate to 7.0 per cent. The Bank Rate which is aligned to the MSF rate also stands adjusted to 7.0 per cent.

The second bi-monthly monetary policy statement for 2016-17 will be announced on June 7, 2016.

Submission of Annual Performance Report for ODI

The Reserve Bank on April 13, 2016 issued revised instructions relating to submission of the Annual Performance Report (APR) in Overseas Direct Investment (ODI) for Indian Party(IP)/Resident Individual(RI), who have to submit an APR to the Reserve Bank by June 30 every year in respect of each Joint Venture (JV) / Wholly Owned Subsidiary (WOS) outside India set up or acquired by the IP / RI. The objective was to provide Authorised Dealer (AD) banks greater capability to track submission of APRs and also improve compliance level in the matter of submission of APRs by the IPs / RIs.(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10349&Mode=0)

Acceptance of Deposits by Indian Companies

The Reserve Bank on April 13, 2016 clarified that keeping deposits with an Indian company by persons resident outside India, in accordance with section 160 of the Companies Act, 2013, is a current account (payment) transaction and, as such, does not require any approval from Reserve Bank. All refunds of such deposits, arising in the event of selection of the person as director or getting more than twenty five percent votes, shall be treated similarly. (https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10348&Mode=0)

FEMA Regulations on Deposits

The Reserve Bank on April 1, 2016 issued certain regulations relating to deposits between a person resident in India and a person resident outside India.(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10325&Mode=0)

FEMA Regulations on Remittance of Assets

The Reserve Bank on April 1, 2016 also issued certain regulations in respect of remittance outside India by a person whether resident in India or not, of assets in India. (https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10326&Mode=0)

Non-Banking Regulation

NBFC-MFIs to act as Channelising Agents

The Reserve Bank on April 13, 2016 allowed Non-Banking Financial Company-Micro Finance Institutions (NBFC-MFIs) to act as channelising agents for providing loans under special schemes of Central/State Government Agencies to targeted socio-economic sections of the population subject to select conditions.

With a view to facilitate the use of NBFC-MFI network to distribute such targeted loans, the Reserve Bank advised that-

- Loans disbursed or managed by NBFC-MFIs in their capacity as channelising agents for Central/State Government Agencies shall be considered as a separate business segment. These loans shall not be included either in the numerator (qualifying assets) or the denominator (total assets) for the purpose of determining the minimum qualifying assets criteria, at present, 85 percent;
- The interest charged on such loans shall be excluded for determining the variance between the maximum and minimum interest rate;
- The cost of such funds shall not be reckoned for arriving at average cost of funds as well as interest rates charged to borrowers as per NBFC-MFIs directions.(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10347&Mode=0)

Infrastructure Debt Funds

With a view to facilitate better Asset Liability Management, the Reserve Bank on April 21, 2016, in consultation with the Government of India, has decided to allow Infrastructure Debt Fund-Non-Banking Financial Companies (IDF-NBFCs) to raise funds through shorter tenor bonds and Commercial Papers (CPs) from the domestic market to the extent of upto 10 per cent of their total outstanding borrowings.(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10362&Mode=0)

Concentration of Credit/ Investment Norms

The Reserve Bank on April 7, 2016 advised all the Systemically Important Non-Banking Financial (Non-Deposit Accepting or Holding) Companies that concentration of credit/ investment norms shall not apply to a systemically important non-banking financial company not accessing public funds in India, either directly or indirectly, and not issuing guarantees. (https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10336&Mode=0)

Currency Management

Security / Inspection Needs and Movement of Treasure

The Reserve Bank on April 13, 2016 advised all the banks having currency chests to ensure conducting of fire audits bi-annually (once in two years) by the officials from the District Fire Department. The banks may also ensure that the working condition of the hotline and other security related gadgets, viz. access control, CCTV, etc. are checked once in a fortnight by the CC officials.(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10346&Mode=0)

Co-operative Banking

Financial Assistance to UCBs for Implementation of CBS

With the objective of ensuring implementation of standardised Core Banking Solution (CBS) in Urban Cooperative Banks(UCBs), the Reserve Bank on April 13, 2016 has prescribed standards and benchmarks for CBS in UCBs and decided to provide technical support to UCBs through Institute for Development and Research in Banking Technology (IDRBT).

Accordingly, a scheme for providing financial assistance to UCBs for implementation of CBS has been formulated in consultation with IDRBT and would be implemented by IDRBT/Indian Financial Technology and Allied Services (IFTAS) (a subsidiary of IDRBT). The initial set up cost of ₹ 4 lakh will be paid by the Reserve Bank to IFTAS. Thereafter, the recurring cost of ₹ 15,000 per branch per month will be borne by the UCB.

UCBs which have not implemented/partially implemented CBS will be eligible for financial assistance under the scheme. Such UCBs may approach IDRBT/IFTAS for availing benefits under the scheme.(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10345&Mode=0)

Unsecured Exposure Norms for UCBs

In order to provide further impetus to Urban Cooperative Banks (UCBs) engaged in financial inclusion, the Reserve Bank on April 21, 2016 allowed UCBs whose priority sector loan portfolio is not less than 90 per cent of the gross loans, to grant unsecured advances to the extent of 35 per cent of their total assets as per the audited balance sheet at the end of the preceding financial year, subject to select conditions. The dispensation for banks whose priority sector lending portfolio is less than 90 per cent will remain unchanged.

For being eligible for the dispensation, the UCB should have CRAR of not less than 9 per cent and Gross NPAs of not more than 7 per cent as per the latest Inspection Report and audited financial statements. Eligible banks may apply to the Regional Office of the RBI under whose jurisdiction its head office is situated. (https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10361&Mode=0)

Debt Management

Oversight of Government Business in Agency Banks

The Reserve Bank on April 7, 2016 put in place a new system of oversight of government business in agency banks and the main changes in the new system are:

a) The scope of the review/inspection will now also cover government business at the Head Offices of agency banks. Various branches and Centralised Pension Processing Centres (CPPCs) will continue to be visited as hitherto.

b) The current practice of issuing reports at the end of the review/inspection will be discontinued. However, the offices/branches will be advised of action points, if any, with a copy to its controlling office.

c) Comments in respect of action points marked as "Major" may be submitted to the Regional Offices of the Reserve Bank under which the branch/office falls.

d) As regards other action points, necessary rectification may be ensured by the bank itself. However, its quality and sustenance may be examined and commented upon by internal audit.

As a part of the new arrangement, offsite monitoring of government business and periodical interactions with senior executives of your bank dealing with government business, have also been introduced. (https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10334&Mode=0)

Results of Inter-Bank Hindi Essay Competition 2015-16

With a view to encouraging original writing in Hindi on banking subjects, the Reserve Bank of India conducted its annual Inter-Bank Hindi Essay competition for 2015-16 in which Staff Members (Except Rajbhasha Officers and Translators) of Public Sector Banks and Financial Institutions participated. The results of the competition are available at (https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=36616)

Edited and published by **Alpana Killawala** for the **Reserve Bank of India**, Department of Communication, Central Office, Shahid Bhagat Singh Marg, Mumbai - 400 001. **MCIR can be accessed at www.mcir.rbi.org.in**