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MONETARY AND CREDIT INFORMATION REVIEW

Banking Regulation

Gold Monetisation and Sovereign Gold Bond Schemes

The Reserve Bank of India has issued direction to all commercial banks(excluding Regional Rural Banks) on implementation of Gold Monetisation Scheme on October 22, 2015 and also issued a circular on details of the Sovereign Gold Bond Scheme on October 30, 2015.

Gold Monetisation Scheme

The Gold Monetisation Scheme, 2015 will replace the existing Gold Deposit Scheme, 1999. However, the deposits outstanding under the Gold Deposit Scheme will be allowed to run till maturity unless the depositors prematurely withdraw them.

Eligibility

Resident Indians (Individuals, HUF, Trusts including Mutual Funds/Exchange Traded Funds registered under SEBI (Mutual Fund) Regulations and Companies) can make deposits under the scheme.

Minimum Size

The minimum deposit at any one time shall be raw gold (bars, coins, jewellery excluding stones and other metals) equivalent to 30 grams of gold of 995 fineness. There is no maximum limit for deposit under the scheme.

The gold will be accepted at the Collection and Purity Testing Centres (CPTC) certified by Bureau of Indian Standards (BIS) and notified by the Central Government under the Scheme. The deposit certificates will be issued by banks in equivalence of 995 fineness of gold. The principal and interest of the deposit under the scheme will be denominated in gold.

Types of Deposits

The designated banks will accept gold deposits under the Short Term (1-3 years) Bank Deposit (STBD) as well as Medium (5-7 years) and Long (12-15 years) Term Government Deposit Schemes. While the former will be accepted by banks on their own account, the latter will be on behalf of Government of India. There will be provision for premature withdrawal subject to a minimum lock-in period and penalty to be determined by individual banks.

Interest on Deposits

Interest on deposits under the scheme will start accruing from the date of conversion of gold deposited into tradable gold bars after refinement or 30 days after the receipt of gold at the CPTC or the bank's designated branch, as the case may be and whichever is earlier. During the period from the date of receipt of gold by the CPTC or the designated branch, as the case may be, to the date on which interest starts accruing in the deposit, the gold accepted by the CPTC or the designated branch of the bank shall be treated as an item in safe custody held by the designated bank.

Reserve Requirements

The short term bank deposits will attract applicable cash reserve ratio (CRR) and statutory liquidity ratio (SLR). However, the stock of gold held by the banks will count towards the general SLR requirement.

KYC to apply

The opening of gold deposit accounts will be subject to the same rules with regard to customer identification as are applicable to any other deposit account.

Utilisation of Gold mobilised under GMS

The designated banks may sell or lend the gold accepted under STBD to MMTC for minting India Gold Coins (IGC) and to jewellers, or sell it to other designated banks participating in GMS. The gold deposited under MLTGD will be auctioned by MMTC or any other agency authorised by the Central Government and the sale proceeds credited to the Central Government's account with the Reserve Bank. The entities participating in the auction may include the Reserve Bank, MMTC, banks and any other entities notified by the Central Government. Banks may utilise the gold purchased in the auction for purposes indicated above.

Risk Management

Designated banks should put in place a suitable risk management mechanism, including appropriate limits, to manage the risk arising from gold price movements in respect of their net exposure to gold. For this purpose, they have been allowed to access the international exchanges, London Bullion Market

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Association or make use of over-the-counter contracts to hedge exposures to bullion prices subject to the guidelines issued by the Reserve Bank.

Grievance redress

Complaints against designated banks regarding any discrepancy in issuance of receipts and deposit certificates, redemption of deposits, payment of interest will be handled first by the bank's grievance redress process and then by the Reserve Bank's Banking Ombudsman.

It may be recalled that the Government of India announced the Gold Monetisation Scheme vide its Office Memorandum F.No.20/6/2015-FT dated September 15, 2015. The objective of the Scheme is to mobilise gold held by households and institutions of the country and facilitate its use for productive purposes, and in the long run, to reduce country's reliance on the import of gold.

The list of CPTCs and Refiners is under finalisation and will be notified by Central Government soon. Indian Banks Association is finalising the necessary documentation including the tripartite agreements to be entered into by the designated banks, CPTCs and the Refiners under the Scheme. Banks are also putting in place the requisite systems and procedures to implement the scheme. The exact date of implementation will be announced by the Reserve Bank shortly. (https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10084&Mode=0)

Sovereign Gold Bond 2015-16

The Reserve Bank of India, in consultation with Government of India, has decided to issue Sovereign Gold Bonds. The Bonds will be issued on November 26, 2015. Applications for the bond will be accepted from November 5, 2015 to November 20, 2015. The Bonds will be sold through banks and designated post offices as may be notified. The borrowing through issuance of the Bond will form part of market borrowing programme of Government of India.

The features of the Bond are given below:

Issuance

To be issued by the Reserve Bank India on behalf of the Government of India.

Eligibility

The Bonds will be restricted for sale to resident Indian entities including individuals, HUFs, trusts, Universities, charitable institutions.

Denomination

The Bonds will be denominated in multiples of gram(s) of gold with a basic unit of 1 gram.

Tenor

The tenor of the Bond will be for a period of 8 years with exit option from 5th year to be exercised on the interest payment dates.

Minimum Size

Minimum permissible investment will be 2 units (i.e. 2 grams of gold).

Maximum Limit

The maximum amount subscribed by an entity will not be more than 500 grams per person per fiscal year (April-March). A self-declaration to this effect will be obtained.

Joint holder

In case of joint holding, the investment limit of 500 grams will be applied to the first applicant only.

Frequency

The Bonds will be issued in tranches. Each tranche will be kept open for a period to be notified. The issuance date will also be specified in the notification.

Issue Price

Price of Bond will be fixed in Indian Rupees on the basis of the previous week's (Monday–Friday) simple average of closing price of gold of 999 purity published by the India Bullion and Jewellers Association Ltd. (IBJA).

Payment Option

Payment for the Bonds will be through electronic funds transfer/cash payment/ cheque/ demand draft.

Issuance form Government of India Stock under GS Act, 2006

The investors will be issued a Stock/Holding Certificate. The Bonds are eligible for conversion into de-mat form.

Redemption Price

The redemption price will be in Indian Rupees based on previous week's (Monday-Friday) simple average of closing price of gold of 999 purity published by IBJA.

Sales Channel

Bonds will be sold through banks and designated Post Offices, as may be notified, either directly or through agents.

Interest Rate

The investors will be compensated at a fixed rate of 2.75 per cent per annum payable semi-annually on the initial value of investment.

Collateral Bonds can be used as collateral for loans. The loan-to-value (LTV) ratio is to be set equal to ordinary gold loan mandated by the Reserve Bank from time to time.

KYC Documentation

Know-your-customer (KYC) norms will be the same as that for purchase of physical gold. KYC documents such as Voter ID, Aadhaar card/ PAN or TAN /Passport will be required.

Tax Treatment

The interest on Gold Bonds shall be taxable as per the provision of Income Tax Act, 1961 (43 of 1961) and the capital gains tax shall also remain same as in the case of physical gold.

Tradability

Bonds will be tradable on exchanges/NDS-OM from a date to be notified by RBI.

SLR Eligibility

The Bonds will be eligible for Statutory Liquidity Ratio.

Commission

Commission for distribution shall be paid at the rate of 1% of the subscription amount.

It may be recalled that Honourable Finance Minister had announced in Union Budget 2015-16 about developing a financial asset, Sovereign Gold Bond, as an alternative to purchasing metal gold. (https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10095&Mode=0)

GMS - linked Gold Metal Loan Scheme

The gold mobilised under STBD may be provided to the jewellers as Gold Metal Loan (GML) Scheme. The designated banks can also purchase the gold auctioned under MLTGD and extend GML to the jewellers. The jewellers will receive the physical delivery of gold either from the refiners or from the designated bank, depending on the place where the refined gold is stored. The existing GML Scheme operated by nominated banks will continue in parallel with GMS-linked GML scheme. All prudential guidelines for the existing GML Scheme as prescribed in the Master Circular as amended from time to time will also be applicable to the new Scheme.

The designated banks other than the nominated banks shall be eligible to import gold only for redemption of the gold deposits mobilised under the STBD.

The designated banks are free to determine the interest rate to be charged on GMS-linked GML. The tenor of GMS-linked GML will be the same as under the extant GML scheme.

The exact date of implementation will be announced by the Reserve Bank shortly.

(Master Direction No.DBR.IBD.No.45/23.67.003/2015-16)

Risk Weights for Claims on Foreign Central Banks

The Reserve Bank, on October 8, 2015 advised commercial banks (excluding local area banks and regional rural banks) that claims on foreign central banks will be risk weighted in a manner similar to claims on foreign sovereigns. Accordingly, claims on foreign sovereigns and their central banks will attract risk weights as per the rating assigned to those sovereigns and central banksby international rating agencies namely, Standard & Poor's/Fitch Ratings and Moody's ratings. Claims on the foreign sovereign or foreign central bank in their jurisdiction, denominated in the domestic currency of that jurisdiction, met out of resources of the same currency will attract a risk weight of zero percent. However, in case a Host Supervisor requires a more conservative treatment to such claims in the books of the foreign branches of the Indian Banks, they should adopt the requirements prescribed by the Host Country supervisors for computing capital adequacy. (https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10065&Mode=0)

Change in Ownership Outside SDR Scheme

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. However, the quantum of provision held by the bank against the said account as on the date of change in ownership of the borrowing entities shall not be reversed except when all the outstanding loan/ facilities of the borrowing entities perform satisfactorily during the 'specified period' (as defined in the extant norms on restructuring of advances), i.e., principal and interest on all facilities in the account are serviced as per terms of payment during that period; In case satisfactory performance during the specified period is not evidenced, the asset classification of the restructured account would be governed by the extant asset classification norms with reference to the repayment schedule that existed before the change in ownership and assuming that upgrade in asset classification had not been given.(https://rbi.org.in/Scripts/NotificationUser.aspx?Id=10039&Mode=0)

Co-operative Banking Regulation

Guidelines on Financial Inclusion Fund

The Reserve Bank, on October 15, 2015 advised Primary (Urban) Co-operative Banks/ State and Central Co-operative Banks the constitution of the Financial Inclusion Fund, by merging of Financial Inclusion Fund (FIF) and Financial Inclusion Technology Fund (FITF). The Reserve Bank has finalised the new scope of activities and guidelines for utilisation of the new FIF in consultation with Government of India (GOI). The new FIF will be administered by the reconstituted Advisory Board constituted by GOI and will be maintained by NABARD.

Constitution of the Fund:

The overall corpus of the new FIF will be ₹ 2000 crore. The Fund shall be in operation for another three years or till such period as may be decided by the Reserve Bank and Government of India in consultation with other stake holders.

Objective of FIF:

The objectives of the FIF is to support "developmental and promotional activities" including creating of financial inclusion (FI) infrastructure across the country, capacity building of stakeholders, creation of awareness to address demand side issues, enhanced investment in Green Information and Communication Technology (ICT) solution, research and transfer of technology, increased technological absorption capacity of financial service providers/users with a view to securing greater financial inclusion. The fund shall not be utilised for normal business/banking activities.

During the past five years banks have invested heavily in creating an infrastructure, which has resulted in a large number of business correspondents being appointed for expanding banking in the unbanked areas and a large number of basic bank accounts being opened for first time customers of banks. BCs have cited lack of business opportunities and sufficient income as also infrastructure issues like lack of proper connectivity, lack of training facilities for BCs, evolution of an appropriate business model as concerns. The objective of the new FIF is addressing these key concerns.

Eligible Activities/Purposes:

The FIF Supports funding the setting up and operational cost for running Financial Inclusion and Literacy Centres. The cost of technical manpower employed by banks for running the Financial Inclusion and Literacy Centres will be funded from the fund. The scope of activities to be carried out by these centres would be:

- Providing financial literacy training to all individuals/ households of the area.
- Providing counselling services for opening of bank accounts and for operating banking and other financial products and services.
- Providing training to BCs about various banking and other financial products and services and also for training them in use of technological devices so as to ensure smooth servicing of customers.
- Redressal of customer grievances by attending to customer complaints, if necessary, by taking up with banks and other institutions.
- Setting up of Standard Interactive Financial Literacy Kiosks in Gram Panchayats and any other financial literacy efforts under taken by banks in excluded areas.
- Support to NABARD and Banks for running of Business and Skill Development Centres including R-SETIs (to the extent not provided by State Governments)
- Support to pilot projects for development of innovative products, processes and prototypes for financial inclusion.
- Financial assistance to authorised agencies for conduct of surveys for evaluating the progress under financial inclusion;
- Sharing the cost of Government projects in connection with laying of last mile fibre optic network, funding of other technological or infrastructure related projects involved in improving or creating network connectivity, in excluded areas.

Eligible Institutions:

Financial Institutions, like Commercial Banks, Regional Rural Banks, Cooperative Banks and NABARD.

Eligible institutions with whom banks can work for seeking support from the FIF, are NGOs; SHGs; Farmer's Clubs, Functional Cooperatives, IT enabled rural outlets of corporate entities; Well-functioning Panchayats; Rural Multipurpose kiosks / Village Knowledge Centres; Common Services Centres (CSCs) established by Service Centre Agencies (SCAs) under the National e-Governance Plan (NeGP); Primary Agricultural Societies (PACs). (https://rbi.org.in/Scripts/NotificationUser.aspx?Id=10074&Mode=0)

Non- Banking Regulation

NBFC-MFIs- Funding by NSFDC for on-lending

The Reserve Bank, on October 1, 2015 relaxed the condition relating to the maximum variance permitted, in case of loans extended by Micro Finance Institutions (NBFC-MFIs) against funding by the National Scheduled Castes Finance and Development Corporation (NSFDC). However, the on-lending to individuals by NBFC-MFIs out of funds of NSFDC shall only be through direct credit to their accounts with banks. Further, NBFC-MFIs shall exclude borrowing from NSFDC in arriving at the average cost of funds of the company for the purpose of pricing of credit, other than to the beneficiaries targeted by NSFDC. For this, NBFC-MFIs shall maintain proper record of funds received from NSFDC and the lending out of those funds. Further, appropriate disclosures in this regard shall be made in the balance sheet of such NBFC-MFIs. The minimum disclosures should include quantum of funds received from NSFDC, cost of such funds, loans disbursed therefrom, rate of interest on such loans and the number of beneficiaries. NBFC-MFIs are required to inform the concerned Regional Office of the Reserve Bank of India of their appointment as a channelising agent by NSFDC within one month from the date of such appointment. (https://rbi.org.in/Scripts/NotificationUser.aspx?Id=10053&Mode=0)

Banking Supervision

Review of Accounts to be submitted to Banks

The Reserve Bank, on September 23, 2015 clarified to public sector banks that Concurrent Auditors should submit their Non-Performing Asset (NPA) review reports to the banks and not to Statutory Central Auditors (SCAs) undertaking the half yearly/quarterly review. who for audit purpose would treat the branches covered by CAs as unaudited branches. SCAs, as in the past, would continue to review top 20 branches for half yearly/quarterly reviews and take into account review reports of overseas branches of public sector banks audited by the respective statutory auditor. SCAs need to necessarily cover advances adversely commented upon in the latest inspection report of the Reserve Bank, special audit/ special scrutiny, if any carried out by the bank, Reserve Bank or any other agency, so that all problem accounts are taken care of during half yearly/ quarterly review.

The balance portion of stipulated 50 percent of advances and NPAs, to be covered for half yearly/quarterly review, would be reviewed by SCAs through Core Banking System of the banks and management inputs viz. internal inspection reports, review reports by concurrent auditors made available to them by banks. The format for "Specimen of the Review Report" to be submitted by SCAs is accordingly revised. (https://rbi.org.in/Scripts/NotificationUser.aspx?Id=10038&Mode=0)

Foreign Exchange Management

Regularisation of Assets held Abroad

The Reserve Bank, on September 25, 2015, advised that without the general or special permission of the Reserve Bank, no person resident in India shall continue to hold an asset located outside India for which a declaration has been made under section 59 of The Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 (Black Money Act). However, no proceedings shall lie against a person resident in India who has made a declaration under section 59 of the Black Money Act, in respect of any undisclosed asset located outside India and has paid the tax and penalty in accordance with the provisions of the Black Money Act. Provided that where the declarant intends to continue to hold the asset so declared, he shall apply to the Reserve Bank within 180 days from the date of declaration, for permission under the relevant provisions of the Act, or rules and regulations framed thereunder, if such permission is necessary as on the date of application. Provided further that where the declarant does not intend to hold the asset so declared or the permission to hold such asset is refused by the Reserve Bank, as the case may be, the declarant shall dispose of the said asset within 180 days from the date of making such declaration or the date of receipt of the communication from the Reserve Bank conveying refusal of permission or within such extended period as may be permitted by the Reserve Bank and bring back the proceeds to India immediately through the banking channel. (https://rbi.org.in/Scripts/NotificationUser.aspx?Id=10052&Mode=0)

The Reserve Bank, on September 30, 2015 clarified that no permission under FEMA will be required to dispose of the asset declared under The Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 (Black Money Act) and they are not required to bring back the proceeds to India through banking channels within 180 days from the date of declaration. (https://rbi.org.in/Scripts/NotificationUser.aspx?Id=10051&Mode=0)

Investment by FPIs in Government Securities

The Reserve Bank, on October 6, 2015 announced a Medium Term Framework (MTF) for FPI limits in Government securities. The features of the MTF are as under:

i. The limits for FPI investment in debt securities will henceforth be announced/ fixed in Rupee terms.

ii. The limits for FPI investment in the Central Government securities will be increased in phases to reach 5 per cent of the outstanding stock by March 2018. In aggregate terms, this is expected to open up room for additional investment of ₹ 1,200 billion in the limit for Central Government securities by March 2018 over and above the existing limit of ₹ 1,535 billion for all Government securities.

iii. Additionally, there will be a separate limit for investment by all FPIs in the State Development Loans (SDLs), to be increased in phases to reach 2 per cent of the outstanding stock by March 2018. This would amount to an additional limit of about ₹ 500 billion by March 2018.

iv. The effective increase in limits for the following two quarters will be announced every half year in March and September.

v. The existing requirement of investments being made in G-sec (including SDLs) with a minimum residual maturity of three years will continue to apply to all categories of FPIs.

vi. Aggregate FPI investments in any Central Government security would be capped at 20% of the outstanding stock of the security. Investments at existing levels in the securities over this limit may continue but not get replenished through fresh purchases by FPIs till these fall below 20%.

For the present, the security-wise limit for FPI investments will be monitored on a day-end basis and those Central Government securities in which aggregate investment by FPIs exceeds the prescribed threshold of 20% will be put in a negative investment list. No fresh investments by FPIs in these securities will be permitted till they are removed from the negative list. There will be no security-wise limit for SDLs for now. (https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10059&Mode=0)

Issuance of Rupee Denominated Bonds Overseas

The Reserve Bank, on September 29, 2015 placed a framework for issuance of Rupee denominated bonds overseas within the overarching ECB policy. The broad contours of the framework are as follows:

i. Eligible borrowers: Any corporate or body corporate as well as Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvITs).

ii. Recognised investors: Any investor from a Financial Action Task Force (FATF) compliant jurisdiction.

iii. Maturity: Minimum maturity period of 5 years.

iv. All-in-cost: All in cost should be commensurate with prevailing market conditions.

v. Amount: As per extant ECB policy.

vi. End-uses: No end-use restrictions except for a negative list.

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10049&Mode=0)

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