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Statement on Developmental and Regulatory Policies

This Statement sets out various developmental and regulatory policy measures relating to (i) Financial Markets; (ii) Regulations; and (iii) Payment Systems and FinTech.

I. Financial Markets

1. Trading of Sovereign Green Bonds in IFSC

Based on an announcement in the Union Budget for FY 2022-23, the Government of India issued Sovereign Green Bonds (SGrBs) in January 2023. SGrBs were also issued as part of the Government borrowing calendar in FY 2023-24. At present, foreign portfolio investors (FPIs) registered with SEBI are permitted to invest in SGrBs under the different routes available for investment by FPIs in government securities. With a view to facilitating wider non-resident participation in SGrBs, it has been decided to permit eligible foreign investors in the International Financial Services Centre (IFSC) to also invest in such bonds. A scheme for investment and trading in SGrBs by eligible foreign investors in IFSC is being notified separately in consultation with the Government and the IFSC Authority.

2. RBI Retail Direct Scheme - Introduction of Mobile App

RBI Retail Direct Scheme, launched in November 2021, gives access to individual investors to maintain gilt accounts with RBI and invest in government securities. The Scheme enables investors to buy securities in primary auctions as well as buy/sell securities through the NDS-OM platform. To further improve ease of access, a mobile application of the Retail Direct portal is being developed. The app will enable investors to buy and sell instruments on the go, at their convenience. The app will be available for use shortly.

II. Regulations

3. Review of LCR Framework

Banks covered under Liquidity Coverage Ratio (LCR) framework are required to maintain a stock of high quality liquid assets (HQLA) to cover the expected net cash outflows in the next 30 calendar days. However, the recent episodes in some jurisdictions have demonstrated the increased ability of the depositors to quickly withdraw or transfer deposits during times of stress, using digital banking channels. Such emerging risks may require a revisit of certain assumptions under LCR

framework. Therefore, certain modifications to the LCR framework are being proposed towards facilitating better management of liquidity risk by the banks. A draft circular in this regard shall be issued shortly for comments of all stakeholders.

4. Dealing in Rupee Interest Rate Derivative products – Small Finance Banks

Extant guidelines permit Small Finance Banks (SFBs) to use only Interest Rate Futures (IRFs) for the purpose of proprietary hedging. In order to expand the avenues available to the SFBs for hedging interest rate risk in their balance sheet and commercial operations more effectively as well as with a view to provide them with greater flexibility, it has now been decided to allow them to deal in permissible rupee interest derivative products in terms of Rupee Interest Rate Derivatives (Reserve Bank) Directions, 2019. A circular in this regard shall be issued shortly.

III. Payment Systems and Fintech

5. Enabling UPI for Cash Deposit Facility

Cash Deposit Machines (CDMs) deployed by banks enhance customer convenience while reducing cash-handling load on bank branches. The facility of cash deposit is presently available only through use of debit cards. Given the popularity and acceptance of UPI, as also the benefits seen from the availability of UPI for card-less cash withdrawal at ATMs, it is now proposed to facilitate cash deposit facility through use of UPI. Operational instructions will be issued shortly.

6. UPI access for Prepaid Payment Instruments (PPIs) through third-party applications

At present, UPI payments from bank accounts can be made by linking a bank account through the UPI App of the bank or using any third-party UPI application. However, the same facility is not available for PPIs. PPIs can currently be used to make UPI transactions only by using the application provided by the PPI issuer. To provide more flexibility to PPI holders, it is now proposed to permit linking of PPIs through third-party UPI applications. This will enable the PPI holders to make UPI payments like bank account holders. Instructions in this regard will be issued shortly.

7. Distribution of CBDCs through Non-bank Payment System Operators

CBDC pilots in the Retail and Wholesale segments are underway with more use-cases and more participating banks. Continuing with this approach, it is proposed to make CBDC-Retail accessible to a broader segment of users in a sustained manner, by enabling non-bank payment system operators to offer CBDC wallets. This is expected to enhance access and expand choices available to users apart from testing the resiliency of the CBDC platform to handle multi-channel transactions. Necessary changes will be made to the system to facilitate this.

(Yogesh Dayal)

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