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RESERVE BANK OF INDIA

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Statement on Developmental and Regulatory Policies

This Statement sets out various developmental and regulatory policy measures for strengthening regulation and supervision; broadening and deepening of financial markets; and improving payment and settlement systems.

I. Regulation and Supervision

1. Primary (Urban) Co-operative Banks – Exposure Limits and Priority Sector Lending

With a view to reducing concentration risk in the exposures of primary (urban) co-operative banks (UCBs) and to further strengthen the role of UCBs in promoting financial inclusion, it is proposed to amend certain regulatory guidelines relating to UCBs. The guidelines would primarily relate to exposure norms for single and group/interconnected borrowers, promotion of financial inclusion, priority sector lending, etc. These measures are expected to strengthen the resilience and sustainability of UCBs and protect the interest of depositors. An appropriate timeframe will be provided for compliance with the revised norms. A draft circular proposing the above changes for eliciting stakeholder comments will be issued shortly.

2. Primary (Urban) Co-operative Banks - Reporting to Central Repository of Information on Large Credits (CRILC)

The Reserve Bank has created a Central Repository of Information on Large Credits (CRILC) of scheduled commercial banks, all India financial institutions and certain non-banking financial companies with multiple objectives, which, among others, include strengthening offsite supervision and early recognition of financial distress. With a view to building a similar database of large credits extended by primary (urban) co-operative banks (UCBs), it has been decided to bring UCBs with assets of ₹500 crores and above under the CRILC reporting framework. Detailed instructions in this regard will be issued by December 31, 2019.

3. Comprehensive Cyber Security Framework for Primary (Urban) Cooperative Banks (UCBs) – A Graded Approach

The Reserve Bank had prescribed a set of baseline cyber security controls for primary (Urban) cooperative banks (UCBs) in October 2018. On further examination, it has been decided to prescribe a comprehensive cyber security framework for the UCBs, as a graded approach, based on their digital depth and interconnectedness with the payment systems landscape, digital products offered by them and assessment of cyber security risk. The framework would mandate implementation of progressively stronger security measures based on the nature, variety and scale of digital product offerings of banks. Such measures would, among others, include implementation of bank specific email domain; periodic security assessment of public facing websites/applications; strengthening the cybersecurity incident reporting mechanism; strengthening of governance framework; and setting up of Security Operations Center (SOC). This would bolster cyber security preparedness and ensure that the UCBs offering a range of payment services and higher Information Technology penetration are brought at par with commercial banks in addressing cyber security threats.

Detailed guidelines in this regard will be issued by December 31, 2019.

4. Development of Secondary Market for Corporate Loans – setting up of Self-Regulatory Body

As recommended by the Task Force on Development of Secondary Market for Corporate Loans, the Reserve Bank will facilitate the setting up of a self-regulatory body (SRB) as a first step towards the development of the secondary market for corporate loans. The SRB will be responsible, *inter-alia*, for standardising documents, covenants and practices related to secondary market transactions in corporate loans and promoting the growth of the secondary market in line with regulatory objectives.

5. On Tap Licensing of Small Finance Banks

In the [Second Bi-monthly Monetary Policy Statement, 2019-20 of June 06, 2019](#), it was announced that the Draft Guidelines for ‘On tap’ Licensing of Small Finance Banks will be issued by the end of August 2019. Accordingly, the [Draft Guidelines were placed on the RBI’s website on September 13, 2019](#) inviting comments from the stakeholders and members of the public. After examining the responses received, the ‘On tap’ Licensing Guidelines for Small Finance Banks have now been finalised and are being issued today.

6. International Financial Service Centre Banking Unit (IBU)

With a view to facilitating ease of operations for IBUs and having regard to the Liquidity Coverage Ratio being maintained by them, it has been decided to allow IBUs to:

- (i) open foreign currency current accounts of their corporate borrowers subject to the provisions of FEMA 1999 and regulations issued thereunder, wherever applicable; and
- (ii) accept fixed deposits in foreign currency of tenor less than one year from non-bank entities and consequently remove the current restriction on premature withdrawal of deposits.

However, the current prohibition on acceptance of retail deposits including from high net worth individuals (HNIs) will continue. Necessary instructions are being issued shortly.

7. Review of NBFC-P2P Directions- Aggregate Lender Limit and escrow accounts

The Reserve Bank had issued directions for Non-Banking Financial Company-Peer to Peer Lending platform (NBFC-P2P) on October 4, 2017. At present, the aggregate limits for both borrowers and lenders across all P2P platforms stand at ₹10 lakh, whereas exposure of a single lender to a single borrower is capped at ₹50,000 across all NBFC-P2P platforms. A review of the functioning of the lending platforms and lending limit was carried out and it has been decided that in order to give the next push to the lending platforms, the aggregate exposure of a lender to all borrowers at any point of time, across all P2P platforms, shall be subject to a cap of ₹50 lakh. Further, it is also proposed to do away with the current requirement of escrow accounts to be operated by bank promoted trustee for transfer of funds having to be necessarily opened with the concerned bank. This will help provide more flexibility in operations. Necessary instructions in this regard will be issued shortly.

8. Baseline Cyber Security Controls for ATM Switch application service providers of RBI regulated entities

A number of commercial banks, urban cooperative banks and other regulated entities are dependent upon third party application service providers for shared services for ATM Switch applications. Since these service providers also have exposure to the payment system landscape and are, therefore, exposed to the associated cyber threats, it has been decided that certain baseline cyber security controls shall be mandated by the regulated entities in their contractual agreements with these service providers. The guidelines would require implementation of several measures to strengthen the process of deployment and changes in application softwares in the ecosystem; continuous surveillance; implementation of controls

on storage, processing and transmission of sensitive data; building capacity for forensic examination; and making the incident response mechanism more robust. Detailed guidelines in this regard will be issued by December 31, 2019.

II. Financial Markets

9. Hedging of foreign exchange risk by residents and non-residents – Issue of final guidelines

An announcement regarding the review of foreign exchange hedging facilities was made in February 2019, followed by issue of draft regulations for public comments on [February 15, 2019](#). The [Task Force on Offshore Rupee markets](#) (Chairperson: Smt. Usha Thorat) also suggested some changes based on its review. The draft regulations have been modified based on the feedback and the recommendations of the Task Force. The important changes are as follows: -

- Users may undertake over the counter (OTC) currency derivative transactions up to USD 10 million, without the need to evidence underlying exposure.
- Banks shall be provided with the discretion, in exceptional circumstances, to pass on net gains on hedge transactions booked on anticipated exposures.
- Strengthening of the safeguards to ensure, that complex derivatives are sold only to users that are capable of managing the risks.

The final directions will be issued after notification of the changes to Foreign Exchange Management Act (FEMA) Regulations.

III. Payment and Settlement System

10. New Pre-Paid Payment Instruments (PPI)

Prepaid Payment Instruments (PPIs) have been playing an important role in promoting digital payments. To further facilitate its usage, it is proposed to introduce a new type of PPI which can be used only for purchase of goods and services up to a limit of ₹10,000. The loading / reloading of such PPI will be only from a bank account and used for making only digital payments such as bill payments, merchant payments, etc. Such PPIs can be issued on the basis of essential minimum details sourced from the customer. Instructions in this regard will be issued by December 31, 2019.