



भारतीय रिजर्व बैंक

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 the financial markets; and improving payment and settlement systems.

I. Regulation and Supervision

1. Leverage Ratio for Banks

In order to mitigate risks of excessive leverage, the Basel Committee on Banking Supervision (BCBS) designed the Basel III Leverage Ratio (LR) as a simple, transparent, and non-risk-based measure to supplement existing risk-based capital adequacy requirements. In terms of the framework on LR put in place by the Reserve Bank, banks have been monitored against an indicative LR of 4.5%. These guidelines have served the purpose of disclosures and also as the basis for parallel run by banks. The final minimum LR requirement was to be stipulated taking into consideration the final rules prescribed by the Basel Committee by end 2017.

BCBS has since finalized that banks must meet a minimum 3% LR requirement at all times (Basel III: Finalising post-crisis reforms, December 2017). Both the capital measure and the exposure measure are to be calculated on a quarter-end basis. However, banks may, subject to supervisory approval, use more frequent calculations (e.g., daily or monthly average) as long as they do so consistently.

Keeping in mind financial stability and with a view to moving further towards harmonisation with Basel III standards, it has been decided that the minimum LR should be

4% for Domestic Systemically Important Banks (DSIBs) and 3.5% for other banks. The instructions in this regard shall be issued before end of June 2019.

2. On Tap Licensing of Small Finance Banks

It was notified in the Guidelines for Licensing of “[Payments Banks](#)” and “[Small Finance Banks](#)” in the Private Sector dated November 27, 2014, that after gaining experience in dealing with these banks, the Reserve Bank will consider ‘on tap’ licensing of these banks.

In the case of Small Finance Banks, license was issued to ten such banks. Further, eight of the ten Small Finance Banks have also been included in the second schedule of the RBI Act, 1934. A review of the performance of Small Finance Banks reveals that they have achieved their priority sector targets and thus attained their mandate for furthering financial inclusion. Hence, there is a case for more players to be included to enhance access to banking facilities to the small borrowers and to encourage competition. It is, therefore, proposed to issue the Draft Guidelines for ‘on tap’ Licensing of Small Finance Banks by the end of August 2019.

It has also been decided that more time is needed to review the performance of Payments Banks before considering the licensing of this category of banks to be put ‘on tap’.

3. Regulatory and Supervisory Framework for Core Investment Companies (CICs)

In August 2010, the Reserve Bank introduced a separate framework for the regulation of systemically important Core Investment Companies (CICs) recognising the difference in the business model of a holding company relative to other non-banking financial companies. Over the years, corporate group structures have become more complex involving multiple layering and leveraging, which has led to greater inter-connectedness to the financial system through their access to public funds. Further, in light of recent developments, there is a need to strengthen the corporate governance framework of CICs. Accordingly, it has been decided to set up a Working Group to review the regulatory guidelines and supervisory framework applicable to CICs.

II. Financial Markets

4. Internal Working Group to Review Liquidity Management Framework

The Reserve Bank's liquidity management framework was last reviewed in 2014. While on the whole the current liquidity management framework has worked well, it has also become somewhat complex. An assessment of liquidity position by different market participants has varied markedly and is not always in sync with the actual systemic liquidity position in the economy.

Accordingly, it has been decided to constitute an Internal Working Group to review comprehensively the existing liquidity management framework and suggest measures, among others, to (i) simplify the current liquidity management framework; and (ii) clearly communicate the objectives, quantitative measures and toolkit of liquidity management by the Reserve Bank. The Group is expected to submit its report by mid-July 2019.

5. Foreign Exchange Trading Platform for Retail Participants

With a view to creating market infrastructure that would ensure fair and transparent pricing for users of foreign exchange (such as Small and Medium Enterprise (SME) exporters and importers, individuals, etc.), the Reserve Bank in October 2017, had issued a discussion paper proposing to set up a foreign exchange trading platform for retail participants that would provide customers with access to an electronic trading platform through an internet-based application on which they can purchase/sell foreign currency at market clearing prices. By unifying the existing fragmented market microstructure, this platform would provide transparency of pricing and promote competition among market-makers leading to better pricing for all customers, regardless of order size. The trading platform has now been developed by the Clearing Corporation of India (CCIL) and is being tested by users. The platform will be available to users for transactions from early August 2019.

The circular on operational guidelines for the platform shall be issued by the end of June 2019.

6. Comprehensive Review of Money Market directions

A well-functioning money market is a crucial link in the chain of monetary policy transmission, apart from being a basic necessity for pricing and liquidity in other financial markets. The Reserve Bank has issued regulations over time covering different money

market products – call money, repo, commercial paper, certificates of deposit and other debt instruments with original maturity less than one year, etc. With the objective of bringing consistency across products in terms of issuers, investors and other participants, it is proposed to rationalize existing regulations covering different money market products. These directions would improve transparency and safety of money markets.

A draft Direction on Money Market shall be issued for public feedback by the end of July 2019.

7. Retail Participation in the Government Security Market

It has been the endeavour of RBI to increase retail participation in the government security market. In addition to scheduled commercial banks and primary dealers, Specified Stock Exchanges approved by Securities and Exchange Board of India (SEBI) have already been permitted to act as Aggregators/Facilitators to aggregate the bids of their stockbrokers/other retail participants (through a web-based application provided to their clientele) and submit a single consolidated bid under the non-competitive segment of the primary auctions of Government of India securities. It has been decided to also allow the Specified Stock Exchanges to act as Aggregators/Facilitators to aggregate the bids of their stockbrokers/other retail participants and submit a single consolidated bid under the non-competitive segment of the primary auctions of State Development Loans (SDLs). The measure will be implemented in consultation with the respective State governments.

III. Payment and Settlement Systems

8. Review of Charges for RBI-operated Payment Systems

The Reserve Bank levies minimum charges on banks for transactions routed through its Real Time Gross Settlement System (RTGS) meant for large-value instantaneous fund transfers and the National Electronic Funds Transfer (NEFT) System for other fund transfers. Banks, in turn, levy charges on their customers. In order to provide an impetus to digital funds movement, it has been decided to do away with the charges levied by the Reserve Bank for transactions processed in the RTGS and NEFT systems. Banks will be required, in turn, to pass these benefits to their customers. Instructions to banks in this regard will be issued within a week.

9. Constitution of a Committee to Review the ATM Interchange Fee Structure

Usage of Automated Teller Machines (ATMs) by the public has been growing significantly. There have, however, been persistent demands to change the ATM charges and fees. In order to address these, it has been decided to set up a Committee involving all stakeholders, under the chairmanship of the Chief Executive Officer, Indian Banks' Association (IBA), to examine the entire gamut of ATM charges and fees. The Committee is expected to submit its recommendations within two months of its first meeting. The Composition and Terms of Reference of the Committee will be issued within a week.

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