प्रेस प्रकाशनी PRESS RELEASE

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Statement on Developmental and Regulatory Policies
Reserve Bank of India

1. This Statement reviews the progress of various developmental and regulatory policy measures announced by the Reserve Bank in recent policy statements and sets out new measures to be taken for further strengthening the banking structure; broadening and deepening financial markets; extending the reach of financial services to all; and extending the reach of financial services by enhancing the efficacy of the payment and settlement systems and improving currency management.

I. Banking Structure

2. Review of Prudential Regulations for All India Financial Institutions (AIFIs) - All India Financial Institutions (AIFIs) currently operate under the Basel I capital framework. Over the years, the operational landscape and risk profiles of AIFIs have changed significantly. With the introduction of Basel III by the Basel Committee on Banking Supervision (BCBS) as a part of global financial regulatory reforms, many development finance institutions across the world have adopted Basel III either voluntarily or as required by their regulatory authorities. Keeping in view the importance of ensuring the safety and soundness of financial institutions in general, it has been decided to selectively extend elements of the Basel III capital framework to the four AIFIs, *viz.,* EXIM Bank, NHB, NABARD and SIDBI with effect from April 1, 2018. Guidelines/modifications to existing guidelines will be issued by end-October 2016.

3. Large Exposure Framework - In order to align the exposure norms for Indian banks with the BCBS standards, and based on comments and feedback received on the Discussion Paper on the Large Exposures Framework, a Draft Large Exposures (LE) Framework was issued on August 25, 2016 for public comments. The comments/feedback received from stakeholders on the draft proposals will be examined and the final guidelines will be issued by end-October 2016 for full implementation by March 31, 2019.

4. Final Guidelines on Computing Capital for Counterparty Credit Risk and Exposures to Central Counterparties - Draft guidelines on computing capital for counterparty credit risk and exposures to central counterparties, based on the revised framework of the BCBS, were issued in June 2016 for public comments. Based on the feedback received, final guidelines to banks on these aspects will be issued by end-October 2016.

5. Guidelines on Interest Rate Risk in the Banking Book - Based on the revised framework of the BCBS on interest rate risk in the banking book, draft guidelines to banks will be issued by end-November 2016.

6. Scheme for Sustainable Structuring of Stressed Assets - The Reserve Bank has put in place a 'Scheme for Sustainable Structuring of Stressed Assets' (S4A) in order to provide an avenue for reworking the financial structure of entities facing genuine difficulties and requiring co-ordinated deep financial restructuring. The scheme provides flexibility in restructuring, which may involve material write-down of debt and/or making large provisions, under a credible framework. Banks that have taken up cases for resolution under the S4A have represented that the asset classification norms under the S4A may be reviewed to make the scheme more effective. Accordingly, it is proposed to allow that portion of debt determined to be sustainable to be treated as a standard asset in all cases, subject to certain conditions. Detailed guidelines in this regard will be issued by end-October 2016.

7. Operating Guidelines for Small Finance Banks and Payment Banks - After in-principle approvals were granted to 11 applicants to set up payments banks (PBs) and 10 applicants to set up small finance banks (SFBs) in the private sector in August 2015 and September 2015, respectively, banking licences were granted to three banks to commence small finance bank business, and to one bank to begin payments bank business. Two of the three small finance banks have commenced operations. Draft operating guidelines were discussed with the applicants who had received the in-principle approvals. Based on their comments, operating guidelines have been finalised and will be issued during this week.

II. Financial Markets

8. Monitoring of Derivative Transactions of Foreign Portfolio Investors (FPIs) - Custodian banks of FPIs will be responsible for monitoring all derivative transactions of an FPI. Accordingly, each FPI will report all derivative transactions conducted with any market-maker (other than its custodian bank) to its custodian bank on the date of transaction itself.

9. Centralised Hedging Facility for Indian subsidiaries of Non-resident Companies - At present, non-residents are allowed to hedge the currency risk arising out of genuine trade transactions involving exports from and imports to India, invoiced in Indian rupees (INR). It has been decided to allow the overseas parent or its central treasury to hedge the currency risk arising out of genuine current account exposures of the Indian subsidiary in order to better manage the latter's currency risk.

10. Introduction of Interest Rate Options - The report of the Working Group on Introduction of Interest Rate Options was placed on the Reserve Bank's website in February 2016 and comments were sought from market participants. Taking into account the feedback, final guidelines on Interest Rate Options will be issued by end-October 2016.

11. External Commercial Borrowings (ECBs) for Start-ups- Start-ups have the potential to play a significant role in economic growth and job creation by spurring innovation and injecting competition. Taking into account the available funding channels from overseas for start-ups, the Reserve Bank, in consultation with the Government of India, will allow such entities to raise ECB up to USD 3 million or equivalent per financial year either in INR or in any convertible foreign currency or a combination of both. Guidelines will be issued by end-October 2016.

12. Import Data Processing and Monitoring System (IDPMS) - With a view to improving the effectiveness of monitoring the import payments, a Working Group on Import Data Processing and Monitoring System (Chairman: Shri A K Pandey) was constituted and based on its recommendations, a single centralized system in the form of Import Data Processing and Monitoring System is proposed to be implemented. The IDPMS will provide end-to-end monitoring of import transactions from shipment to final payment, thereby doing away with the existing gap in current monitoring on a stand-alone basis by the custom authorities, authorised dealer banks and the Reserve Bank. The IDPMS will go live with effect from October 10, 2016.

III. Payment and Settlement

13. Acceptance Development Fund - It has been decided to set up an Acceptance Development Fund (ADF) in order to encourage wider adoption of electronic payments and to ensure planned expansion of card acceptance infrastructure in the country. The ADF, which would be established and operated under the aegis of Indian Banks' Association (IBA), will set the rules for contribution and utilisation of funds. In addition, it will plan deployment of acceptance devices across various geographic and merchant segments in the country. Guidelines for the ADF framework will be issued by December 31, 2016.

14. Review of Guidelines for Pre-paid Payment Instruments (PPI) - Around 47 non-bank entities and 45 banks currently operate the payment systems for pre-paid payment instruments (PPI). In view of significant developments in the payments space using newer technologies, products and players, it has been decided to undertake a comprehensive review of the guidelines for issuance and operations of PPIs. The revised guidelines will be put in place by December 31, 2016. Accordingly, the receipt and processing of fresh applications have been temporarily suspended.

IV. Currency Management

15. Review of Security of Treasure in Transit - A high level inter-agency committee will be set up by end-October 2016 to review the entire gamut of security of treasure in transit in order to beef up security of remittance of currency notes/coins.

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