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भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

वेबसाइट : www.rbi.org.in/hindi
Website : www.rbi.org.in
ई-मेल/email : helpdoc@rbi.org.in

संचार विभाग, केंद्रीय कार्यालय, एस.बी.एस.मार्ग, फोर्ट, मुंबई-400001
Department of Communication, Central Office, S.B.S.Marg, Fort, Mumbai-400001
फोन/Phone: 022- 22660502

Azadi Ka Amrit Mahotsav

February 10, 2022

Statement on Developmental and Regulatory Policies

This Statement sets out various developmental and regulatory policy measures relating to (i) liquidity measures; (ii) financial markets; (iii) payment and settlement systems and (iv) regulation and supervision.

I. Liquidity Measures

1. Extension of Term Liquidity Facility of ₹50,000 crore to Emergency Health Services

On May 5, 2021, an on-tap liquidity window of ₹50,000 crore at the repo rate with tenors of up to three years was announced to boost provision of immediate liquidity for ramping up COVID-19 related healthcare infrastructure and services in the country. Banks were incentivised for quick delivery of credit under the scheme through extension of priority sector classification to such lending up to March 31, 2022. Banks were expected to create a COVID-19 loan book under the scheme. By way of an additional incentive, such banks were eligible to park their surplus liquidity up to the size of the COVID-19 loan book with the RBI under the reverse repo window at a rate 25 bps lower than the repo rate, i.e., 40 bps higher than the reverse repo rate. Banks have deployed their own funds to the tune of ₹9,654 crore (up to February 4, 2022) towards COVID-19 related emergency health services. In view of the response to the scheme, it is now proposed to extend this window up to June 30, 2022 from March 31, 2022 as announced earlier.

2. Extension of On-tap Liquidity Window for Contact-intensive Sectors

On June 4, 2021, it was decided to open a separate liquidity window of ₹15,000 crore at the repo rate with tenors of up to three years available till March 31, 2022 for certain contact-intensive sectors. By way of an incentive, such banks were eligible to park their surplus liquidity up to the size of the COVID-19 loan book, created under this scheme with the RBI. The amount in this COVID-19 loan book attracted a rate which is 25 bps lower than the repo rate or, termed in a different way, 40 bps higher than the reverse repo rate. Banks desirous of deploying their own resources without availing funds from the RBI under the scheme for lending were also eligible for this incentive. Banks have deployed their own funds to the tune of ₹5,041 crore (up to February 4, 2022) to the entities under contact intensive sector. In view of the response to the scheme, it is now proposed to extend this window up to June 30, 2022.

II. Financial Markets

3. Voluntary Retention Route (VRR) – Enhancement of Limits

The Voluntary Retention Route (VRR) for investment in government and corporate debt securities by Foreign Portfolio Investors (FPIs) was introduced on March 01, 2019 with a view to facilitating stable investments in debt instruments issued in the country. The Route sought to provide a separate channel, broadly free of macro-prudential controls, to FPIs with long-term investment horizons. A dedicated investment limit of ₹1,50,000 crore was set for investments under the VRR. Given the positive response to the VRR as evident from the near exhaustion of the current limit, it is proposed to increase the investment limit under VRR by ₹1,00,000 crore to ₹2,50,000 crore with effect from April 1, 2022. The revised investment limits are being notified today.

4. Review of Credit Default Swaps (CDS) Guidelines

Guidelines for Credit Default Swaps (CDS) were last issued in January 2013. Given the importance of the CDS market for the development of a liquid market for corporate bonds, especially for the bonds of lower rated issuers, it was announced in the Statement on Developmental and Regulatory Policies of December 4, 2020 that these guidelines would be reviewed. Accordingly, draft guidelines were issued on

February 16, 2021 for public consultation. Taking into account the feedback received, the final Directions are being issued today.

5. Permitting Banks to Deal in offshore Foreign Currency Settled Rupee Derivatives Market

Banks in India were permitted in June 2019 to offer Rupee interest rate derivatives to non-residents to hedge their interest rate risk. Overseas entities were also permitted to undertake Overnight Indexed Swap (OIS) transactions for purposes other than hedging with banks in India either directly or on a back-to-back basis through a foreign branch/parent/group entity (foreign counterpart) of the market-maker in India. The initiative has added to liquidity in the domestic OIS market, promoted diversity in participation and reduced the segmentation between the onshore and offshore markets. With a view to providing a further fillip to the interest rate derivative market in the country, removing the segmentation between onshore and offshore markets and improving the efficiency of price discovery, it has been decided to allow banks in India to undertake transactions in the offshore Foreign Currency Settled Overnight Indexed Swap (FCS-OIS) market with non-residents and other market makers. Banks may participate through their branches in India, their foreign branches or through their IFSC Banking Units. Necessary directions are being issued today.

III. Payment and Settlement Systems

6. Enhancement of the Cap under e-RUPI (Prepaid digital Vouchers using UPI)

The e-RUPI prepaid digital voucher, developed by the National Payments Corporation of India (NPCI) and launched in August 2021, is a person-specific and purpose-specific cashless voucher and can be used by individuals, corporates or governments. e-RUPI runs on the UPI platform and has a cap of ₹10,000/- per voucher and each voucher can be used / redeemed only once. e-RUPI vouchers are presently being used largely for COVID-19 vaccination purposes. There are other use cases being actively considered by various State Government and Central Government Ministries / Departments.

To facilitate digital delivery of various government schemes to the beneficiaries, it is proposed to increase the cap on amount for e-RUPI vouchers issued by

Governments to ₹1,00,000/- per voucher and allow use of the e-RUPI voucher multiple times (until the amount of the voucher is completely redeemed). Necessary instructions to NPCI will be issued separately.

7. Enabling Better Infrastructure for MSME Receivables Financing – Increasing NACH Mandate Limit for TReDS Settlements

Trade Receivables Discounting System (TReDS) facilitates discounting / financing of receivables of Micro, Small and Medium Enterprises (MSMEs). TReDS settlements are carried out through mandates in the National Automated Clearing House (NACH) system. Presently the amount of the NACH mandate is capped at ₹1 crore.

To encourage innovation and competition through increased participation, 'on-tap' authorisation of TReDS operators was introduced by Reserve Bank in October 2019. Effective July 1, 2020 the Central Government has revised the definition of MSMEs with linkage to their annual turnover as well. Keeping in view the growing liquidity requirements of the MSMEs and the requests received from the TReDS platforms, it is proposed to increase the NACH mandate limit to ₹3 crore for TReDS settlements.

Necessary instructions will be issued separately.

IV. Regulation and Supervision

8. Master Direction (MD) on IT Outsourcing and Master Direction (MD) on Information Technology Governance, Risk, Controls and Assurance Practices

The financial system is seeing extensive leveraging and outsourcing of critical IT services by Regulated Entities to get easier access to newer technologies through financial technology players to improve efficiencies. These arrangements expose them to significant financial, operational and reputational risks. Similarly, increasing dependence of customers on digital channels to avail banking services makes it imperative for Regulated Entities to focus on operational resilience.

It is, therefore, felt that aspects such as risk management framework for IT outsourcing, managing concentration risk, periodic risk assessment and outsourcing to foreign service providers require suitable regulatory guidelines. Guidelines relating to Information Security Governance and Controls, Business Continuity Management and Information Systems Audit also require to be updated and consolidated.

Accordingly, the Reserve Bank proposes to issue guidelines addressing the above aspects. Two draft directions will be issued for comments of stakeholders and members of the public: (i) Reserve Bank of India (IT Outsourcing) Directions, 2022; and (ii) Reserve Bank of India (Information Technology Governance, Risk, Controls and Assurance Practices) Directions, 2022.

(Yogesh Dayal)
Chief General Manager

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