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RBI issues Instructions on Priority Sector Lending Certificates; Launches Portal for Trading Them

Photograph

The Reserve Bank of India today issued instructions on trading in Priority Sector Lending Certificates (PSLCs) ([FIDD.CO.Plan.BC.23/04.09.01/2015-16 dated April 7, 2016](#)). While releasing the instructions, Shri S. S. Mundra, Deputy Governor, Reserve Bank also launched a platform to enable trading in the certificates through its Core Banking Solution (CBS) portal (e-Kuber). All Scheduled Commercial Banks (including Regional Rural Banks), Urban Co-operative Banks, Small Finance Banks (when they become operational) and Local Area Banks are eligible to participate in the trading.

Four kinds of PSLCs, namely, PSLC - Agriculture, PSLC – Small & Marginal Farmers, PSLC – Micro Enterprises and PSLC - General can be bought and sold via the platform. The certificates will have a standard lot size of ₹25 lakh and multiples thereof. There will be no transfer of credit risk on the underlying and the settlement of funds will be done through the e-Kuber portal. The detailed user guidelines for trading on the platform are also available on the portal.

Background

The Reserve Bank of India had comprehensively [revised the priority sector guidelines](#) in April 2015 which provided for the introduction of PSLCs as a mechanism to incentivise banks having surplus in their lending to different categories of priority sector. On lines of carbon credit trading, the goal of PSLCs is to allow market mechanism to drive priority sector lending by leveraging the comparative strength of different banks. For instance, a bank with an expertise in lending to small farmers can over perform there and get benefit by selling its over performance through PSLCs. Another bank that is better at lending to small industry can buy these certificates while selling PSLCs for micro enterprise loans.