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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 financial markets; improving currency management; promoting financial inclusion and literacy; and, facilitating data management.

I. Regulation and Supervision

1. Mandatory Loan Component in Working Capital Finance

With a view to promoting greater credit discipline among working capital borrowers, it is proposed to stipulate a minimum level of 'loan component' in fund based working capital finance for larger borrowers. Draft Guidelines are being issued for feedback in this regard.

2. Countercyclical Capital Buffer

The framework on countercyclical capital buffer (CCCB) was put in place by the Reserve Bank in terms of guidelines issued on February 5, 2015 wherein it was advised that the CCCB would be activated as and when the circumstances warranted, and that the decision would normally be pre-announced with a lead time of four quarters. The framework envisages the credit-to-GDP gap as the main indicator, which may be used in conjunction with other supplementary indicators, viz., the Credit-Deposit (C-D) ratio for a moving period of three years (given its correlation with the credit-to-GDP gap and GNPA growth), industrial outlook (IO) assessment index (with due note of its correlation with GNPA growth), and interest coverage ratio (noting its correlation with the credit-to-GDP gap). Based on the review and empirical testing of CCCB indicators, it has been decided that it is not necessary to activate CCCB at this point in time.

3. Deferment of Indian Accounting Standards (Ind AS) implementation

Scheduled Commercial Banks (SCBs), excluding Regional Rural Banks (RRBs), were required to implement Indian Accounting Standards (Ind AS) from April 1, 2018 vide our Circular dated February 11, 2016. However, necessary legislative amendments – to make the format of financial statements, prescribed in the Third Schedule to Banking Regulation Act 1949, compatible with accounts under Ind AS – are under consideration of the Government. In view of this, as also the level of preparedness of many banks, it has been decided to defer implementation of Ind AS by one year by when the necessary legislative changes are expected.

4. Storage of Payment System Data

In recent times, the payment ecosystem in India has expanded considerably with the emergence of new payment systems, players and platforms. Ensuring the safety and security of payment systems data by adoption of the best global standards and their continuous monitoring and surveillance is essential to reduce the risks from data breaches while maintaining a healthy pace of growth in digital payments.

It is observed that at present only certain payment system operators and their outsourcing partners store the payment system data either partly or completely in the country. In order to have unfettered access to all payment data for supervisory purposes, it has been decided that all payment system operators will ensure that data related to payment systems operated by them are stored only inside the country within a period of 6 months. Detailed instructions will be issued in this regard within one week.

II. Financial Markets

5. Access for Non-residents into the IRS Market

Rupee Interest Rate Swap (IRS) market, while it is the most liquid among interest rate derivative markets, still lacks depth to enable large banks to manage risks. Thin participation and consequent absence of divergence of views result in pricing inefficiencies, which further discourages participation. At the same time, it is understood that there is an active market for Rupee interest rate swaps offshore. Also, Indian market has witnessed increasing participation from non-resident players like FPIs in debt. With a view to develop a deep IRS market that accommodates divergent participants, it is proposed to permit non-residents

access to the Rupee IRS market in India. Detailed draft regulation will be issued for public comments by end of May 2018.

6. Introduction of Rupee Swaptions

In December 2016, RBI introduced Rupee Interest Rate Options (IRO), following the recommendations of the P.G. Apte Working Group. Only plain vanilla Interest Rate Options were allowed initially. Subsequently, market participants including corporates have expressed the need for swaptions to effectively manage interest rate risk. Fixed Income Money Market and Derivative Association of India (FIMMDA) has conveyed a similar request on behalf of its members. It is, therefore, proposed to permit interest rate swaptions in Rupees so as to enable better timing flexibility for those seeking to hedge interest rate risk. The directions will be issued by end of April 2018.

7. Review of Separate Trading of Registered Interest and Principal Securities (STRIPS) directions

The Reserve Bank introduced the Separate Trading of Registered Interest and Principal Securities (STRIPS) in Government Securities in April, 2010. After some initial interest, the product did not find much favour with the market. With a view to encouraging trading in STRIPS by making it more aligned with market requirements and to meet the diverse needs of the investors, it is proposed to review these guidelines. The revised directions will be issued by end of April 2018.

8. Legal Entity Identifier (LEI) for Non-individual Market Participants

The Legal Entity Identifier (LEI) code has been conceived as a key measure to improve the quality and accuracy of financial data systems for better risk management post the Global Financial Crisis. The LEI is a 20-character unique identity code assigned to entities who are parties to a financial transaction. RBI has already implemented the LEI code for all market participants in Over-the-Counter (OTC) derivative products in interest rate, currency and credit markets. It was also made applicable for large corporate borrowers. Continuing with this endeavour to improve transparency in financial markets, it is proposed to implement the LEI mechanism for all financial market transactions undertaken by non-individuals, in interest rate, currency or credit markets. Draft directions will be issued by end of April 2018.

9. Introduction of Single Master Form for Reporting of Foreign Direct Investment in India

Foreign Direct Investment in India, on a repatriable basis, is made by non-residents through eligible instruments such as Equity Shares, Compulsory Convertible Preference shares, Compulsorily Convertible Debentures, Share Warrants etc., issued by the investee company or by contributing to the capital of a Limited Liability Partnership (LLP). At present, the reporting of the above transactions resulting in foreign investment are in a disintegrated manner across various platforms/modes. The Reserve Bank plans to introduce an online reporting by June 30, 2018 *via* a Single Master Form which would subsume all reporting requirements, irrespective of the instrument through which the foreign investment is made.

10. Reporting by Authorised Dealers

Currently, transactions under Liberalised Remittance Scheme (LRS) are being permitted by Authorised Dealer (AD) banks based on the declaration made by the remitter. As such, it is difficult for the AD banks to monitor/ensure that a remitter has not breached the prescribed limit by approaching multiple AD banks. With the objective of improved monitoring and ensuring compliance with the LRS ceilings, it has been decided to put in place a system for daily reporting of individual transactions by banks. This will, *inter alia*, enable the AD Banks to view the remittances already sent by an individual before allowing further remittance thus obviating the possibility of a remitter breaching the LRS limit by approaching multiple AD banks. Detailed instructions in this regard will be issued shortly.

III. Currency Management

11. Norms for Cash-in-Transit (CIT) Industry and Promotion of Self-Regulatory Organisation by CIT Industry

In the Statement on Developmental and Regulatory Policies of February 7, 2018, the Reserve Bank had announced a time frame to implement the recommendations of the two high level inter-agency committees constituted by it to suggest measures for improvement of currency management, including security of movement of treasure. The Committees, *inter alia*, had recommended stipulation of minimum standards for cash logistics industry and promotion of a Self-Regulatory Organisation (SRO) for the industry.

i) Under the ‘Guidelines on Managing Risks and Code of Conduct in Outsourcing of Financial Services’ issued by the Reserve Bank in November 2006, cash management and logistics at the bank level has largely been outsourced to Cash-in-Transit (CIT) companies and Cash Replenishment Agencies (CRAs). There is, however, no regulation or supervision

for this industry at present. With a view to promote healthy growth of the sector and mitigate risks associated with movement of currency through these agencies, Reserve Bank will require the banks to ensure that the CIT companies/CRAs engaged by them meet minimum prescribed standards. The instructions to the banks in this regard will be issued within a month.

ii) In order to ensure compliance with minimum standards for the CIT industry and other applicable laws, the Bank will encourage the cash management industry to promote a Self-Regulatory Organisation (SRO) for undertaking development work along with self-regulation of the industry, till such time that an appropriate legislative structure is put in place.

12. Central Bank Digital Currency

Rapid changes in the landscape of the payments industry along with factors such as emergence of private digital tokens and the rising costs of managing fiat paper/metallic money have led central banks around the world to explore the option of introducing fiat digital currencies. While many central banks are still engaged in the debate, an inter-departmental group has been constituted by the Reserve Bank to study and provide guidance on the desirability and feasibility to introduce a central bank digital currency. The Report will be submitted by end-June 2018.

13. Ring-fencing regulated entities from virtual currencies

Technological innovations, including those underlying virtual currencies, have the potential to improve the efficiency and inclusiveness of the financial system. However, Virtual Currencies (VCs), also variously referred to as crypto currencies and crypto assets, raise concerns of consumer protection, market integrity and money laundering, among others.

Reserve Bank has repeatedly cautioned users, holders and traders of virtual currencies, including Bitcoins, regarding various risks associated in dealing with such virtual currencies. In view of the associated risks, it has been decided that, with immediate effect, entities regulated by RBI shall not deal with or provide services to any individual or business entities dealing with or settling VCs. Regulated entities which already provide such services shall exit the relationship within a specified time. A circular in this regard is being issued separately.

IV. Financial Inclusion and Literacy

14. Tailored Financial Literacy Content

A ‘one size fits all’ approach for imparting financial education to various target groups is sub-optimal. Financial education contents sought to be delivered to diverse target groups need to be customized to meet their typical target groups. The Reserve Bank is in the process of developing tailored financial literacy contents for five specified target groups' viz. Farmers, Small entrepreneurs, School children, Self Help Groups and Senior Citizens, that can be used by the trainers. The contents in the form of five booklets will be released within 15 days.

15. Revamping of the Lead Bank Scheme

The Lead Bank Scheme was started to ensure economic development of the districts/states by establishing coordination between the banks and government agencies. The Scheme was last reviewed by a “High Level Committee” under Smt Usha Thorat, erstwhile Deputy Governor of Reserve Bank of India, as the Chairperson in 2009. In view of several changes that have taken place in the financial sector over the years, Reserve Bank of India had constituted a “Committee of Executive Directors” of the Bank to study the efficacy of the Scheme and suggest measures for its improvement. The Committee has since submitted its recommendations and it has been decided to realign the Lead Bank Scheme based on the recommendations to make it more relevant. Instructions on the revised scheme would be issued to the banks within 15 days.

V. Data Management

16. Creation of RBI Data Sciences Lab

It is critical for a full-service Central Bank, such as the RBI, with diverse responsibilities – inflation management, currency management, debt management, reserves management, banking regulation and supervision, financial inclusion, financial market intelligence and analysis, and overall financial stability – to employ relevant data and apply the right filters for improving its forecasting, nowcasting, surveillance and early-warning detection abilities that all aid policy formulation. In the backdrop of ongoing explosion in information gathering, computing capability and analytical toolkits, policy making benefits not only from data collected through regulatory returns and surveys but also from large volumes of structured and unstructured real-time information sourced from consumer interactions in the digital

world. Accordingly, it has been decided to gainfully harness the power of Big Data analytics by setting up a Data Sciences Lab within the RBI that will comprise experts and budding analysts, internal as well as lateral, who are trained *inter alia* in Computer Science, Data Analytics, Statistics, Economics, Econometrics and/or Finance. It is envisaged that the unit will become operational by December 2018.

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