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Preface

The February 2015 budget proved to be a lackluster budget for many as it failed to meet the market expectations of coming out with some revolutionary reform agendas. However, a closer analysis of the budget would reveal the pursuit of the new Modi- led Government of weeding out the issues plaguing the economy from their very roots before introducing any new reform measures. The approach has been to eliminate inequalities prevalent in the country rather than offering curatives like subsidies and guaranteed wages. One has to keep in mind that structures that can withstand the test of time are not built overnight which is probably what the government is trying to achieve by first eliminating the lacunae existing in the current scheme of things.

The RBI has been working in close tandem with the finance ministry in aiding the economy to get back on the desired growth trajectory. It has recently signed an MOU with the Finance Ministry putting down a revised monetary policy framework and the role and responsibilities of the RBI. No major guideline was issued by the RBI in the month of January except for the revision of bancassurance guidelines, whereby banks can now act as insurance brokers. However, a number of guidelines are in the pipeline including operating guidelines for cash settled IRF contracts on 5-7-Year and 13-15 year Government of India Securities; increased flexibility for Exchange Traded Currency

Derivatives, etc.

The government has made inflation targeting as its core priority and also has given RBI a target to keep inflation in check by forming a monetary policy committee. Further the government has revised the growth data by revising the inflation base, though this was received with large skepticism by many. However major development banks and international agencies peg India to be outpacing all the major economies in the world and with all eyes glued on India and acts of the Government, all the actions of the government will be subject to major scrutiny. The decisions taken by the government over next two years will shape the future of the economy.

India - The Economic Survey - A Synopsis



India - The Economic Survey - A Synopsis

Economic survey which was tabled in the parliament on February 27, 2015 by the Finance Minister gave us an insight about what the government thinks of the state of the economy. Economic survey being a document which was prepared under the watch of the incumbent Chief Economic Advisor Mr.Arvind Subramanian (ex-assistant director-research department of the IMF) took inspiration from the World Economic Outlook published by the International Monetary Fund. Similar to the world economic outlook, the economic survey is divided into two parts. Volume 1 discusses the outlook and prospects as well as a number of analytical chapters addressing topical policy concerns. Volume 2 describes recent developments in all the major sectors of the economy and contains all the statistical tables and data. In a sense, Volume 1 is forward-looking but gaining from the perspective provided by the recent past which is the subject of Volume 2.

On January 30, the Central Statistics Office released a new GDP series that entailed shifting the base year from 2004-05 to 2011-12 but also using more data and deploying improved methodologies. New estimates for GDP have been provided for the years 2011-12 to 2014-15. According to the new estimates, growth at market prices in 2013-14 apparently accelerated by 1.8 percentage points to 6.9 percent (1.5 percentage points for growth at basic prices). These numbers seem difficult to reconcile with other developments in the economy. 2013-14 was a crisis year—capital flowed out, interest rates were tightened, there was consolidation—and it is difficult to see how an economy's growth rate could accelerate so much in such circumstances. Also, imports of goods in 2013-14 apparently declined by 10 percent, which, even accounting for the squeeze on gold imports, is high. Growth booms are typically accompanied by import surges not import declines. This boom was one over-reliant on domestic demand because the contribution of net external demand

was substantially negative.

The largest discrepancies between the two series arise in 2013-14 and relate to real GDP growth for the manufacturing sector, where the magnitude is 6 percentage points! Even in 2012-13 the divergence between the two series in manufacturing is 5 percentage points. Jumps in the level of the manufacturing share of GDP can be attributed to the new methodology but it is still unclear why the rate of growth should diverge so much from previous estimates and from other indicators of manufacturing growth (viz. the index of industrial production). Even allowing for the fact that the latter is a volume index and the former a valued-added index, the discrepancy remains large. Clearly, these issues need to be examined in greater detail.

Until a longer data series is available for analysis and comparisons, and until the changes can be plausibly ascribed to the respective roles of the new base, new data, and improved methodology, the growth narrative of the last few years may elude a fuller understanding. Regardless, the latest numbers will have to be the prism for viewing the Indian economy going forward because they will be the only ones on offer. But, the balance of evidence and caution counsel in favour of an interpretation of a recovering rather than surging Indian economy.

India - The Economic Survey - A Synopsis

THE GROWTH-FISCAL POLICY CHALLENGE

India can balance the short-term imperative of boosting public investment to revitalize growth with the need to maintain fiscal discipline. Expenditure control and expenditure switching, from consumption to investment, both in the upcoming budget and in the medium term will be key. Notwithstanding the challenging nature of the 2014-15 budget, elaborated in the Mid-Year Economic Analysis 2014-15, the Government will adhere to the fiscal target of 4.1 per cent of GDP. Despite weakness in revenue collection and delayed disinvestment, new excises on diesel and petrol (revenue yield of about Rs. 20,000 crores), reduced subsidies, and expenditure compression will ensure the commitment to discipline.

WIPING EVERY TEAR FROM EVERY EYE: THE JAM NUMBER TRINITY SOLUTION

The debate is not about whether but how best to provide active government support to the poor and vulnerable. Cash-based transfers based on the JAM number trinity—Jan Dhan, Aadhaar, Mobile—offer exciting possibilities to effectively target public resources to those who need it most. Success in this area will allow prices to be liberated to perform their role of efficiently allocating resources and boosting long-run growth.

GROWTH, PRIVATE AND PUBLIC INVESTMENT

“The balance sheet syndrome with Indian characteristics” creates a web of difficult challenges that could hold back private investment. Private investment must remain the primary engine of long-run growth. But in the interim, to revive growth and to deepen physical connectivity, public investment, especially in the railways, will have an important role to play.

Since the new government assumed office, a slew of economic reforms has led to a partial revival of investor sentiment. Tentative signs that the worst is over are evident for example in data that shows that the rate of stalled projects has begun to decline and that the rate of their revival is inching up. But increasing capital flows are yet to translate into a durable pick-up of real investment, especially in the private sector. This owes to at least five interrelated factors that lead to what the *Mid-Year Economic Analysis* called the “*balance sheet syndrome with Indian characteristics.*”

First, hobbled by weak profitability and weighed down by over-indebtedness, the Indian corporate sector is limited in its ability to invest going forward (the flow challenge). One key indicator of profitability—the interest cover ratio, which if less than one implies firms’ cash flows are not sufficient to pay their interest costs—has also worsened in recent years. Further, as the Figure the debt-equity ratios of the top 500 non-financial firms have been steadily increasing, and their level now is amongst the highest in the emerging market world.

Second, weak institutions relating to bankruptcy means that the over-indebtedness problem cannot be easily resolved (the stock and ‘difficulty-of exit’ challenge). This is reflected in the persistence of stalled projects which have been consistently around 7 to 8 percent of GDP in the last four years.

Third, even if some of these problems were solved, the PPP model at least in infrastructure will need to be re-fashioned to become more viable going forward (the institutional challenge).

India - The Economic Survey - A Synopsis

Fourth, since a significant portion of infrastructure was financed by the banking system, especially the public sector banks, their balance sheets have deteriorated.¹⁹ For example, the sum of nonperforming and stressed assets has risen sharply, and for the PSBs they account for over 12 percent of total assets. Uncertainty about accounting and valuation, and indeed the history of banking difficulties across time and space, counsel in favor of over- rather than underrecognizing the severity of the problem. When banks' balance sheets are stressed they are less able to lend, leading to reduced credit for the private sector (the financing challenge).

Finally, in a peculiarly Indian twist, this financing problem is aggravated by generalized risk-aversion (the challenge of inertial decision-making). For the public sector banks in particular, which are exposed to governmental accountability and oversight, lending in a situation of NPAs is not easy because of a generic problem of caution, afflicting bureaucratic decision-making.

THE BANKING CHALLENGE

Banking is hobbled by policy, which creates double financial repression, and by structural factors, which impede competition. The solution lies in the 4 Ds of deregulation (addressing the statutory liquidity ratio (SLR) and priority sector lending (PSL)), differentiation (within the public sector banks in relation to recapitalisation, shrinking balance sheets, and ownership), diversification (of source of funding within and outside banking), and disinterring (by improving exit mechanisms).

Discussions of banking in India have recently focused on the problem of stressed and restructured assets, the challenges in acquiring the resources to meet the looming Basel III requirements on capital adequacy, including the

respective contributions of the government and markets, and the need for governance reform reflected in the 2013 Nayak Committee Report. Stepping back from these proximate issues allows a deeper analytical diagnosis of the problems of Indian banking which in turn provide the basis for more calibrated solutions.

The problems in the Indian banking system lie elsewhere and fall into two categories: policy and structure.

The policy challenge relates to financial repression. The Indian banking system is afflicted by what might be called "double financial repression" which reduces returns to savers and banks, and misallocates capital to investors. Financial repression on the asset side of the balance sheet is created by the statutory liquidity ratio (SLR) requirement that forces banks to hold government securities, and priority sector lending (PSL) that forces resource deployment in less-than-fully efficient ways. Financial repression on the liability side has arisen from high inflation since 2007, leading to negative real interest rates, and a sharp reduction in household savings. As India exits from liability side repression with declining inflation, the time may be appropriate for addressing its asset-side counterparts.

The structural problems relate to competition and ownership. First, there appears to be a lack of competition, reflected in the private sector banks' inability to increase their presence. Indeed, one of the paradoxes of recent banking history is that the share of the private sector in overall banking aggregates barely increased at a time when the country witnessed its most rapid growth and one that was fuelled by the private sector. It was an anomalous case of private sector growth without private sector bank financing. Even allowing for the over- exuberance of the PSBs that financed this investment-led growth phase, the reticence of the private sector was striking.

India - The Economic Survey - A Synopsis

Second, there is wide variation in the performance of the public sector banks measured in terms of prudence and profitability.

As the banking sector exits the financial repression on the liability side, aided by the fall in inflation, this is a good opportunity to consider relaxing the asset side repression. Easing SLR requirements will provide liquidity to the banks, depth to the government bond market, and encourage the development of the corporate bond market.

Second, PSL norms too can be re-assessed. There are two options: one is indirect reform bringing more sectors into the ambit of PSL, until in the limit every sector is a priority sector; and the other is to redefine the norms to slowly make PSL more targeted, smaller, and need-driven. There must be differentiation between the PSBs and the recent approach to recapitalization adopted by the government is a step in the right direction. One size fits all approaches such as governance reform cannot be the most appropriate. Differentiation will allow a full menu of options such as selective recapitalization, diluted government ownership, and exit.



Our point of
view on key
RBI
guidelines
issued in
January 2015

Entry of Banks into Insurance Business

RBI Circular Reference: RBI/2014-2015/409

Date of Notification: January 15, 2015

Applicable Entities: All Scheduled Commercial Banks

Background & Objective

As per the August, 2000 guidelines issued by RBI, Banks were permitted to undertake distribution of insurance products either under the corporate agency model or referral model. The Finance Minister in the budget speech 2013-14 announced that banks will be permitted to act as insurance brokers. Consequent to the announcement, IRDA formulated and notified the IRDA (Licensing of Banks as Insurance Brokers) Regulations, 2013 to enable banks to take up the business of insurance broking departmentally. Under those guidelines, a bank, under corporate agency model, could act as a corporate agent and sell policies of only one life insurer and one non-life insurance company. In response to long pending demand from the insurance industry to allow banks to act as insurance brokers and to increase the penetration of insurance products by leveraging the network of bank branches, RBI has issued these guidelines, whereby banks are now allowed to undertake insurance business with risk participation through a subsidiary/JV set up for the purpose; or act as brokers for insurers or undertake referral services for multiple companies.

Key Directives Issued by RBI

Accordingly, the extant instructions on conduct of insurance business by banks, have been reviewed. It is advised that banks may undertake insurance business by setting up a subsidiary/joint venture, as well as undertake insurance broking/ insurance agency/either departmentally or through a subsidiary, subject to the conditions given in the Annex. However, it may be noted that if a bank or its group entities, including subsidiaries, undertake insurance distribution through either broking or corporate agency mode, the bank/other group entities would not be permitted to undertake insurance

distribution activities, i.e., only one entity in the group can undertake insurance distribution by either one of the two modes mentioned above.

4. i) Banks setting up a subsidiary/JV for undertaking insurance business with risk participation.

Banks are not allowed to undertake insurance business with risk participation departmentally and may do so only through a subsidiary/JV set up for the purpose. Banks which satisfy the eligibility criteria (as on March 31 of the previous year) given below may approach Reserve Bank of India to set up a subsidiary/joint venture company for undertaking insurance business with risk participation:

- a) The net worth of the bank should not be less than Rs.1000 crore;
- b) The CRAR of the bank should not be less than 10 per cent;
- c) The level of net non-performing assets should be not more than 3 percent.
- d) The bank should have made a net profit for the last three continuous years;
- e) The track record of the performance of the subsidiaries, if any, of the concerned bank should be satisfactory.

RBI approval would factor in regulatory and supervisory comfort on various aspects of the bank's functioning such as corporate governance, risk management, etc.

It may be noted that a subsidiary of a bank and another bank will not normally be allowed to contribute to the equity of the insurance company on risk participation basis.

It should also be ensured that risks involved in insurance business do not get transferred to the bank and that the banking business does not get contaminated by any risks which may arise

from insurance business. There should be an 'arms length' relationship between the bank and the insurance outfit.

ii) Banks undertaking insurance broking/corporate agency through a subsidiary/JV

Banks require prior approval of RBI for setting up a subsidiary/JV. Accordingly, banks desirous of setting up a subsidiary for undertaking insurance broking/corporate agency and which satisfy the eligibility criteria (as on March 31 of the previous year) given below may approach Reserve Bank of India for approval to set up such subsidiary/JV:

- a) The net worth of the bank should not be less than Rs.500 crore after investing in the equity of such company;
- b) The CRAR of the bank should not be less than 10 per cent;
- c) The level of net non-performing assets should be not more than 3 per cent.
- d) The bank should have made a net profit for the last three continuous years;
- e) The track record of the performance of the subsidiaries, if any, of the concerned bank should be satisfactory.

As hitherto, RBI approval would also factor in regulatory and supervisory comfort on various aspects of the bank's functioning such as corporate governance, risk management, etc.

5. Banks undertaking corporate agency functions/broking functions departmentally

Banks need not obtain prior approval of the RBI to act as corporate agents on fee basis, without risk participation/undertake insurance broking activities departmentally, subject to IRDA Regulations, and compliance with the conditions given in the Annex.

6. Banks undertaking referral services

In terms of IRDA (Sharing of Database for Distribution of Insurance Products) Regulations 2010, no bank is presently eligible to conduct insurance referral business.

Implications

Banks are not allowed to undertake insurance business with risk participation departmentally and may do so only through a subsidiary/ JV set up for the purpose after satisfying the criteria given by RBI and obtaining their permission.

Banks can also act as corporate agents on fee basis without risk participation or undertake insurance broking activities departmentally, subject to IRDA Regulations. They need not obtain prior approval of the RBI for this.

Banks which satisfy the eligibility criteria (as on March 31 of the previous year) and have obtained RBI approval for setting up a subsidiary/ JV for undertaking insurance broking activities need to ensure the following:

- In case of agency model, Banks may have to amend the existing agreement signed with insurance companies containing clause pertaining to only selling products of those insurance companies
- Banks should bear in mind that their group entities may undertake either insurance broking or corporate agency business
- Banks should formulate a policy to undertake insurance distribution, whether under the agency or the broking model
- Banks should maintain the deposit which is required to be maintained by an insurance broker with a scheduled commercial bank other than itself
- Banks should ensure that the bank staff engaged in insurance broking/ corporate agency services are qualified as per IRDA requirements
- Bank may obtain an undertaking from the insurance companies to the effect that no incentive (cash or non-cash) is paid to the staff engaged in insurance broking/ corporate agency services by the insurance company
- Banks would need to promote availability of insurance products of various companies by running awareness programs and campaigns

- Banks should work with their technology team for developing system for assessing the suitability of products for customers and also customize the system to suit the insurance products of various Insurance companies
- Banks may have to collect separate set of KYC documents for Insurance products offered by various Insurance companies till the time RBI permits reliance on Cross-KYC within banks.

Interest Rates on Advances

RBI Circular Reference: RBI/2014-15/414

Date of Notification: January 19, 2015

Applicable Entities: All Scheduled Commercial Banks (Excluding RRBs)

Background & Objective

It was noticed that banks in the past had shown reluctance to pass on the benefits of rate cut to the consumers, but were proactive in raising the benchmark lending rate soon after the repo rates were hiked.

The notification comes soon after the RBI cut the repo rate by 0.25 percentage point, the first reduction seen in 20 months in order to boost credit and economic growth.

Thus, though the period of review of Base Rate has not changed (i.e. it stays at the current frequency of once every quarter), the RBI has reduced the review period of base rate methodology down to three years from existing five years.

Key Directives Issued by RBI

With effect from 19th February 2015, the following guidelines will be applicable:

Computation of Base Rate

While computing Base Rate, banks will have the freedom to calculate cost of funds either on the basis of average cost of funds or on marginal cost of funds or any other methodology in practice, which is reasonable and transparent and provided it is consistent and made available for supervisory reviews/scrutiny as and when required. It is clarified here that where the card rate for deposits of one or more tenor(s) is the basis, the deposits in the chosen tenor(s) should have the largest share in the deposit base of the bank.

Review of Base Rate

As hitherto, banks are required to review the Base Rate at least once in a quarter with the

approval of the Board or the Asset Liability Management Committee (ALCO) as per the bank's practice.

Review of Base Rate methodology

(i) With a view to providing banks greater operational flexibility, it has been decided to allow banks to review the Base Rate methodology after three years from date of its finalization instead of the current periodicity of five years. Accordingly, banks may change their Base Rate methodology after completion of prescribed period with the approval of their Board of Directors/ ALCO.

(ii) Banks will, however, not be allowed to change their methodology during the review cycle.

Spread

(i) Banks should have a Board approved policy delineating the components of spread charged to a customer. It should be ensured that any price differentiation is consistent with bank's credit pricing policy.

(ii) Bank's internal pricing policy must spell out the rationale for, and range of, the spread in the case of a given category of borrower, as also, the delegation of powers in respect of loan pricing. The rationale of the policy should be available for supervisory review.

(iii) The spread charged to an existing borrower should not be increased except on account of deterioration in the credit risk profile of the customer or change in the tenor premium. Any such decision regarding change in spread on account of change in credit risk profile should be supported by a full-fledged risk profile review of the customer. The change in tenor premium should not be borrower specific or loan class specific. In other words, the change in tenor premium will be uniform for all types of loans for a given residual tenor.

(iv) The guidelines contained in sub-paragraph (iii) above are, however, not applicable to loans under consortium/ multiple banking arrangements.

Implications

Banks will be required to review the Base Rates quarterly and thus, incorporate the effects of RBI policy changes (like the lowering of repo rates so as to pass on the benefits to the bank customers).

Most banks had set their Base Rate formula last in 2010 (three years back), at the time of the last notification by RBI in this regard. Hence, they will need to relook at the various components and the computation methodology soon. The Base Rate calculation methodology will need to be approved by the bank's Asset Liability Committee (ALCO)/ Board of Directors after completion of the prescribed period.

The banks' discretionary power in pricing shall be kept in check since banks no longer have the discretion to increase the spread charged to an existing borrower, except on account of deterioration in the credit risk profile of the customer or change in the tenor premium.

RBI also mandates that the change in tenor premium should not be borrower specific or loan class specific i.e. the change in tenor premium should be uniform for all types of loans for a given residual tenor. The addition of the 'tenor premium' in the spread may make banks revisit the base rate since most banks give home loans at the base rate, particularly for affordable housing loans. With the requirement of RBI that the tenor premium should be uniform, the preferential rates for particular classes of loans like home loans and auto loans may stop.

Overseas Direct Investments by proprietorship concern / unregistered partnership firm in India - Review

RBI Circular Reference: RBI/2014-15/419

Date of Notification: January 22, 2015

Applicable Entities: All Category-I Authorised Dealer Banks

Background & Objective

This guideline has been issued with the objective of aligning the regulations relating to the Overseas Direct Investments (ODI) of Proprietorship Concerns and Unregistered Partnership Firms in India with the Foreign Trade Policy.

The guideline also lays down restrictive ODI terms and conditions for proprietorship concerns and unregistered partnership firms, which need to be monitored by the banks.

For better customer identification and efficient risk management, Know Your Customer (KYC) requirements must be specifically adhered to by the banks.

Key Directives Issued by RBI

The following revised terms and conditions are required to be complied with for considering the proposal of ODI, by a proprietorship concern / unregistered partnership firm in India, by the Reserve Bank under the approval route:

- (a) The proprietorship concern / unregistered partnership firm in India is classified as 'Status Holder' as per the Foreign Trade Policy issued by the Ministry of Commerce and Industry, Govt. of India from time to time;
- (b) The proprietorship concern / unregistered partnership firm in India has a proven track record, i.e., the export outstanding does not exceed 10% of the average export realisation of the preceding three years and a consistently high export performance;
- (c) The Authorised Dealer bank is satisfied that the proprietorship concern / unregistered partnership firm in India is KYC (Know Your Customer) compliant, engaged in the proposed

business and has turnover as indicated;

- (d) The proprietorship concern / unregistered partnership firm in India has not come under the adverse notice of any Government agency like the Directorate of Enforcement, Central Bureau of Investigation, Income Tax Department, etc. and does not appear in the exporters' caution list of the Reserve Bank or in the list of defaulters to the banking system in India; and
- (e) The amount of proposed investment outside India does not exceed 10 per cent of the average of last three years' export realization or 200 per cent of the net owned funds of the proprietorship concern / unregistered partnership firm in India, whichever is lower.

Implications

As per the revised terms and conditions introduced by the RBI, ODI by unregistered firms/ proprietorship concerns will become restricted as the applicants need to ensure that the prescribed limits are being adhered to.

The implications for the banks are as follows:

- Banks can reject those proposals of ODIs wherein any of the prescribed limits are not complied with.
- Banks need to perform adequate due diligence to ensure that all the unregistered firms/ proprietorship concerns are KYC compliant and have a clean legal background.

Other Key
Guidelines
issued by
RBI in
January
2015



S.no	Guidelines Reference	Date of Issue	Particulars	Impact
1	RBI/2014-15/375	January 1, 2015	Implementation of Cheque Truncation System - Dispensation of the requirement of forwarding of government cheques in physical form to government	<p>Cheque Truncation System (CTS) facilitates presentation and payment of cheques without their physical movement. However, with regard to government cheques, they need to be sent back in physical form after the payment has been made to the government departments.</p> <p>In order to ease norms and enhance the efficiency of the cheque clearing system, RBI in September 2014 had said that there will be no need to return back paid government cheques to the concerned departments from January 1, 2015. The Reserve Bank has, however, postponed its decision till further notice.</p>
2	RBI/2014-15/377	January 1, 2015	Security for External Commercial Borrowings	<p>The Reserve Bank of India (RBI) prescribes stringent norms on external commercial borrowings (ECBs) as also the grant of security in favor of foreign lenders or suppliers who have extended ECBs to Indian borrowers. While clarity has been developing over the years, there has often been doubt regarding specific types of securities and guarantees to be granted.</p> <p>The RBI has issued this circular for consolidating and clarifying the types of security and guarantees that can be provided in support of ECBs in favor of a foreign lender or supplier. Authorised dealers may allow the creation of security or the issue of guarantees for ECBs as long as they satisfy certain conditions.</p> <p>This circular provides greater clarity and flexibility to borrowers and lenders so as to enable them to arrive at the optimal security package for ECBs.</p>

S.no	Guidelines Reference	Date of Issue	Particulars	Impact
3	RBI/2014-15/381	January 2, 2015	Brand/Name of products offered by authorised entities – Dissemination of Information	<p>Under the Payment and Settlement Act, 2007 (PSS Act), an entity operating a payment system within the country has to obtain authorisation from Reserve Bank of India (RBI). The Certificate of Authorisation (COA) issued by the Bank to an entity on receiving approval is in the name of the company.</p> <p>It has been noticed that many authorised entities, which use specific brand names for their products like e-wallets, smart cards, White Label ATMs (WLAs), etc., do not disclose/disseminate their own company name in the information made available to the users of their products. The public may thus not be able to associate a brand name of a product to the name of the company authorised under the Act. To ensure transparency in the promotional material and to build an enduring relationship with the customers, corporates and other business entities offering electronic payment facilities such as e-wallets and smart cards under different brands must also disclose their own identities while promoting such services in the market and also keep RBI informed regarding the brand names employed / to be employed for their products.</p>
4	RBI/2014-15/387	January 6, 2015	Non-resident guarantee for non-fund based facilities entered between two resident entities	<p>In August 2012, the RBI had extended the facility of non-resident guarantee under the general permission for non-fund based facilities (such as Letters of Credit/guarantees/Letter of Undertaking (LoU) /Letter of Comfort (LoC)) entered into between two persons resident in India.</p> <p>Vide this circular, the apex bank has clarified that subsidiaries of multinational companies can also hedge their foreign currency exposure through permissible derivative contracts executed with an AD Category I Bank. The subsidiaries of multinational companies may, thus, hedge their foreign currency exposure on the strength of guarantee of its non-resident group entity.</p>

S.no	Guidelines Reference	Date of Issue	Particulars	Impact
5	RBI/2014-15/394	January 7, 2015	Payment of agency commission – Certification of claims by external auditors	<p>The RBI has amended the format of certification of agency commission claims by external auditors (Chartered Accountants) vide this circular.</p> <p>Under the amended format, the words “Verified” has been replaced by “Examined” and “agency commission has been arrived at correctly” with “Agency commission has been audited and found correct”. The said certificate now requires the external auditors to examine and audit the agency commission before issuance of such a certificate.</p>
6	FEMA.334/2015-RB	January 9, 2015	Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) (Amendment) Regulations, 2015	<p>RBI has made the following amendments in the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2000 which will come in force from January 21, 2015:</p> <p>1. Title Change : The Regulations shall be called the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) (Amendment) Regulations, 2015.</p> <p>2. Amendment to Schedule 1 : The existing entry 17 in in Annex B of the Schedule 1 of the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2000 (Notification No. FEMA 20/2000-RB dated 3rd May 2000) shall be substituted vide the circular.</p>
7	RBI/2014-15/406	January 15, 2015	Change in Bank Rate	<p>As announced by the RBI in the press release 2014-2015/1486, the bank rate has been reduced by 25 basis points from 9.00 percent to 8.75 percent with effect from January 15, 2015.</p> <p>Penal interest rates on shortfall in reserve requirements, which have been linked to the bank rate have also been revised accordingly.</p> <p>Banks are likely to lower their lending rates as a result of the RBI action.</p>

S.no	Guidelines Reference	Date of Issue	Particulars	Impact
8	RBI/2014-2015/405	January 15, 2015	Membership of Credit Information Companies (CICs)	<p>Presently Credit Information Companies (CICs) only provide the credit history related to member Credit Institutions with which the borrower/ client has/ had a current or a past exposure. Also, the NPAs in MSME (micro, small & medium enterprises) sector, housing sector and priority lending sector are on a rise. Due to increasing concerns over rising bad loans and to overcome the problem of credit information asymmetry between the lenders and the borrowers, RBI has mandated all the Credit Institutions (CIs) to become a member of all CICs within three months from the date of this directive and accordingly, submit data (including historical data) to them.</p> <p>Further, CICs and CIs shall keep the credit information collected/ maintained by them, updated regularly on a monthly basis or at such shorter intervals as may be mutually agreed upon between the CI and the CIC in terms of Regulation 10 (a) (i) and (ii) of the Credit Information Companies Regulations, 2006.</p>
9	RBI/2014-2015/403	January 15, 2015	Liquidity Adjustment Facility- Repo and reverse Repo rates	<p>The repo rate under the Liquidity Adjustment Facility (LAF) has been reduced by 25 basis points from 8.00 percent to 7.75 percent.</p> <p>Consequently, the reverse repo rate stands adjusted 6.75 percent.</p> <p>Banks are likely to lower their lending rates as a result of the RBI action.</p>
10	RBI/2014-2015/404	January 15, 2015	Marginal Standing Facility	<p>Consequent to the change in the repo rate under LAF to 7.75 percent; the Marginal Standing Facility rate pegged to this repo rate has been adjusted to 8.75 percent.</p>
11	RBI/2014-15/402	January 15, 2015	Standing Liquidity Facilities for Banks and Primary Dealers	<p>The Standing Liquidity Facilities provided to banks under Export Credit Refinance (ECR) and to Primary Dealers (PDs) (collateralised liquidity support) from the Reserve Bank would be available at the revised repo rate, i.e., at 7.75 per cent.</p>

S.no	Guidelines Reference	Date of Issue	Particulars	Impact
12	RBI/2014-15/411	January 16, 2015	Computation of Net Worth	In order to have uniformity and clarity in respect of the computation of net-worth for an entity authorised under the Payment and Settlement Systems Act, the RBI has advised that the 'Net-worth' will consist of <i>'paid up equity capital, free reserves, balance in share premium account and capital reserves representing surplus arising out of sale proceeds of assets but not reserves created by revaluation of assets' adjusted for 'accumulated loss balance, book value of intangible assets and Deferred Revenue Expenditure, if any'</i> . This definition would apply for the purpose of all approvals under the PSS Act.
13	RBI/2014-15/416	January 21, 2015	Payments into Government Account through Debit / Credit cards and Net banking: permissible period for remittance	The agency banks must ensure that all payments (in confirmation with the provisions contained in the Payment and Settlement Systems Act 2007 and the rules and regulations framed thereunder) of government revenues through debit card/ credit card/ online payment are made on T+1 basis, where "T" is the day when money is available with the receiving bank branch. Delay beyond this period will lead to penal interest.
14	RBI/2014-15/424	January 22, 2015	Export and Import of Indian Currency	With a view to reducing the restrictions on individuals visiting Nepal or Bhutan, RBI has announced that an individual can now carry to Nepal and Bhutan, Indian currency notes in denominations of Rs.500 and/or Rs.1,000, subject to a limit of Rs.25,000. Earlier, individuals travelling to Nepal and Bhutan were allowed to carry Indian currency without any limit in denomination of only up to Rs.100.

S.no	Guidelines Reference	Date of Issue	Particulars	Impact
15	RBI/2014-15/423	January 22, 2015	Foreign Exchange Management (Foreign Currency Accounts by a Person Resident in India) Regulations, 2000 – Remittance of salary	<p>In response to the queries pertaining to whether remittance of salary outside India can be affected for employees on deputation to a group company in India and for employees of Limited Liability Partnership, the RBI has issued this guideline whereby it is informed that the facility available to an employee of a company under Regulation 7(8) of Notification No. FEMA 10 (as amended from time to time) shall also be available to an employee who is deputed to a group company in India. In addition, the term 'company' referred to in the said regulation will include 'Limited Liability Partnership' as defined in the LLP Act, 2008.</p> <p>Thus, employees of foreign companies on deputation to a group company in India or employees of LLP firms can now open, hold and maintain a foreign currency account with a bank outside India and receive the whole salary in this account, provided that income tax is paid on the entire salary as accrued in India.</p>
16	RBI/2014-15/422	January 22, 2015	Display of information by banks	<p>Banks need to display the interest range of loans in the past quarter, along with the average interest rate at which loans have been granted to borrowers, on their website. This is applicable to all the categories in which loans to individual borrowers have been sanctioned. They also need to inform the borrowers about the fees and charges on the loan at the time of processing.</p> <p>Banks also need to display the charges on their website and publish annual percentage rate (APR) of loans.</p> <p>Thus, banks need to amend the data displayed on their websites so as to ensure compliance with this guideline and provide greater transparency in pricing of credit.</p> <p>Banks will also have to provide a fact-sheet at every stage of loan processing or in case there is any change in terms and conditions. This fact sheet includes information such as interest rate, fee on processing, penalty, details of security/collateral obtained, equated monthly instalment, or EMI, that the borrower needs to pay, etc.</p>

S.no	Guidelines Reference	Date of Issue	Particulars	Impact
17	RBI/2014-15/421	January 22, 2015	Depository Receipts Scheme	<p>RBI has made certain amendments to FEMA regulations to adopt the new depository receipts scheme. The new scheme has the following features:</p> <ul style="list-style-type: none"> - The securities in which a person resident outside India is allowed to invest under FEMA shall be eligible securities for issue of Depository Receipts in terms of DR Scheme 2014 - A person will be eligible to issue or transfer eligible securities to a foreign depository for the purpose of issuance of depository receipts as provided in DR Scheme 2014 - The aggregate of eligible securities which may be issued or transferred to foreign depositories, along with eligible securities already held by persons resident outside India, shall not exceed the limit on foreign holding of such eligible securities under the extant FEMA regulations, as amended from time to time - The eligible securities shall not be issued to a foreign depository for the purpose of issuing depository receipts at a price less than the price applicable to a corresponding mode of issue of such securities to domestic investors under FEMA - It is to be noted that if the issuance of the depository receipts adds to the capital of a company, the issue of shares and utilisation of the proceeds shall have to comply with the relevant conditions laid down in the Regulations framed and Directions issued under FEMA - The domestic custodian shall report the issue/transfer of sponsored/unsponsored depository receipts as per DR Scheme 2014 in 'Form DRR' within 30 days of close of the issue/program
18	RBI/2014-15/420	January 22, 2015	Foreign Direct Investment (FDI) in India – Review of FDI policy – Sector Specific conditions- Construction Development	<p>100% FDI under automatic route has been permitted in construction development sector subject to the conditions specified in the Press Note 10 (2014 Series) dated December 3, 2014. Thus RBI, has amended Annex B pertaining to Sectoral cap on Investments by Persons Resident Outside India.</p>

S.no	Guidelines Reference	Date of Issue	Particulars	Impact
19	RBI/2014-15/425	January 23, 2015	External Commercial Borrowings (ECB) Policy – Simplification of Procedure	<p>Under the simplified procedure for ECB, RBI has delegated powers to the banks to make changes/ modifications in the draw-down and repayment schedules of the ECB raised both under the automatic and approval routes. Banks can allow reduction in the amount of ECB (irrespective of the number of occasions) along with any changes in draw-down and repayment schedules, average maturity period and all-in-cost, provided the revised average maturity period and/or all-in-cost is/are in conformity with the applicable ceilings/guidelines.</p> <p>Banks may also allow the cases requiring transfer of the ECB from one company to another on account of re-organisation at the borrower's level in the form of merger/ demerger/ amalgamation/ acquisition after satisfying themselves that the company acquiring the ECB is an eligible borrower and ECB continues to be in compliance with applicable guidelines.</p> <p>Thus, a high level of autonomy has been provided to the banks for allowing changes/ modifications to the draw-down and repayment schedules/ reduction in amount/ increase in all-in-cost / change in the name of the lender of ECBs or for allowing transfer of ECBs from one company to another on account of re-organisation at the borrower's level.</p> <p>FCCBs are, however, not covered under these provisions.</p>
20	RBI/2014-15/430	January 28, 2015	Dispensing with 'No Due Certificate' for lending by banks	<p>– Banks need not obtain 'No Due Certificate' from the individual borrowers (including SHGs & JLGs) in rural and semi-urban areas for all types of loans, including loans under Government Sponsored Schemes, irrespective of the amount involved unless the Government Sponsored Scheme itself provides for obtaining of 'No Dues Certificate'.</p>

S.No	Guidelines Reference	Date of Issue	Particulars	Impact
				<ul style="list-style-type: none"> - Although Service Area Approach continues to be applicable for Government Sponsored Schemes, the borrower is free to approach any bank branch in his service area for obtaining credit under Government Sponsored Schemes. - Banks may use an alternative framework of due diligence as part of credit appraisal exercise other than the 'No Due Certificate' which could, among others, consist of one or more of the following: <ul style="list-style-type: none"> i. Credit history check through credit information companies ii. Self declaration or an affidavit from the borrower iii. CERSAI registration iv. Peer monitoring v. Information sharing among lenders vi. Information search (writing to other lenders with an auto deadline) - Banks need to submit credit information/data to all Credit Information Companies (CICs), as required in terms of extant instructions issued by RBI
21	RBI/2014-15/73	January 7, 2015	Master Circular on Wilful Defaulters	<p>The terms 'Lender' and 'Unit' have been modified, post which wilful default will said to have occurred in the following instances:</p> <ul style="list-style-type: none"> a. The unit has defaulted in meeting its payment / repayment obligations to the lender even when it has the capacity to honor the said obligations. b. The unit has defaulted in meeting its payment / repayment obligations to the lender and has not utilised the finance from the lender for the specific purposes for which finance was availed of but has diverted the funds for other purposes. c. The unit has defaulted in meeting its payment / repayment obligations to the lender and has siphoned off the funds so that the funds have not been utilised for the specific purpose for which finance was availed of, nor are the funds available with the unit in the form of other assets.

S.No	Guidelines Reference	Date of Issue	Particulars	Impact
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d. The unit has defaulted in meeting its payment / repayment obligations to the lender and has also disposed off or removed the movable fixed assets or immovable property given by him or it for the purpose of securing a term loan without the knowledge of the bank/lender.

Further Banks and FIs should ensure that the borrowing company does not induct in its board a person whose name appears in the list of wilful defaulters and if inducted, adequate steps should be taken for the removal of such persons.

The paragraph on 'Grievance Redressal Mechanism' has been modified and titled 'Mechanism for identification of Wilful Defaulters'. It provides for the establishment of a Committee and issue of a show cause notice, if an instance of a wilful default is concluded by the Committee. It also provides for the establishment of another Committee for reviewing the order of the former.

Further, a non-whole time director should not be considered as a wilful defaulter, except in very rare cases as entailed in the circular.

Also, guarantors have been included in the list of wilful defaulters since as per the Indian Contract Act, 1872 the liability of the surety is co-extensive with that of the principal debtor. Hence on a default by the principal debtor, the guarantor refuses to comply with the demand made by the creditor/banker, despite having sufficient means to make payment of the dues, such guarantor would also be treated as a wilful defaulter. It is clarified that this would apply only prospectively and not to cases where guarantees were taken prior to this circular.

The approach to 'wilful default' involves a bank (which is not a judicial or a quasi-judicial authority) to determine that a default is 'wilful'. Once done, the subordinated legislation forces all banks to proceed with penal measures. The revised guidelines tries to bestow untrammelled powers of judicial review on the banks which may lack judicial skills of adjudication.

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