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Regulatory Impact Assessment
Banking

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Contents

Preface

The government announcement around recapitalization of public sector banks as part of the union budget has brought in more disappointment than cheers from the financial sector. This was on account of the capital infusion figure being much lower than what was expected by the industry. However, even though the finance minister has stated that the government is ready to infuse capital as and when needed, a lot needs to be done to improve the alarming state of NPA problem in financial sector. In addition to the announcement in relation to the real estate regulator and measures on the fiscal front, RBI is expected to publish a rate cut in its next policy review, thus providing banks a cushion before they adopt the marginal cost of funding method of pricing the loans.

Further, in line with the government notification on implementation of IND AS, RBI also came up with detailed guidelines around the same, thus laying a roadmap for its adoption by the banks.

There has been an increased focus on promoting start ups in India with the Central Government coming up with various solutions to provide them with a sustainable environment and ensure their smooth functioning. The RBI too relaxed certain regulatory requirements pertaining to start up businesses.

RBI also reviewed the prudential norms related to stressed assets and announced certain procedural changes related to the same.

The major focus of all the stakeholders in the current economy is around

- reduction of NPAs
- capitalization of banks
- timely recovery from defaulting parties.

RBI is expected to come up with regulations/guidelines which will help banks in combating the menace of the non performing assets and address the above concerns.

Our point of view on key RBI guidelines issued in April 2016

Oversight of Government Business in Agency Banks

RBI Circular Reference: RBI/2015-16/361
Date of Notification: April 07, 2016
Applicable Entities: The Chairman/ Managing Director/ Chief Executive Officer/ Agency Banks

Background and Objective

The Agency Bank framework was adopted to enhance the quality of customer service in Government business through increased competition, improvement of customer convenience by increasing the number of customer service outlets and broad basing the revenue collection and payments mechanism of governments. With a view to obtain first- hand information from these Agency Banks on a periodical basis to identify and address critical problems affecting their progress, RBI through this notification has come up with a mechanism to hold informal meetings with the Agency banks to discuss the same at the grass-root level. Further, to enhance its reach, the inspection will also be conducted at Head Offices of such Banks. The Regulator casts the responsibility on Internal Audit Departments of these Banks to act upon and ensure applicability of the rectifications and suggestions it has suggested during the review. Thus, on the whole, the changes reflect the intention to formalize the entire process with timely and quality feedback from responsible parties.

Key directives issued by RBI

As you are aware, in terms of the agency agreement entered into with agency banks for conduct of government business, the Reserve Bank of India carries out periodical review/inspection of government business. We have so far been conducting such review/inspection at select branches, including Focal Point Branches and Centralized Pension Processing Centres (CPPCs). Relative reports were being issued to the branch/office concerned at the end of the review/inspection.

It has since been decided to put in place a new system of oversight of government business. Accordingly, the following will be the main changes:

a. The scope of the review/inspection will now also cover government business at the Head Offices of agency banks. Various branches and CPPCs will continue to be visited as hitherto.

b. The current practice of issuing reports at the end of the review/inspection will be discontinued. However, the offices/branches will be advised of action points, if any, with a copy to its controlling office.

c. Comments in respect of action points marked as “Major” may be submitted to the Regional Offices of the Reserve Bank under which the branch/office falls.

d. As regards other action points, necessary rectification may be ensured by the bank itself. However, its quality and sustenance may be examined and commented upon by internal audit.

As a part of the new arrangements, it has been decided to introduce offsite monitoring of government business. Accordingly, agency banks may report details of their government business as per the formats enclosed in Annexes 1 and 2. The completed statements may be e-mailed with a copy to the Regional Office of Reserve Bank of India under whose jurisdiction the bank falls. A list of agency banks and the Regional Office of the Reserve Bank under which it falls is given in Annex 3. The first such report may relate to the quarter ending March 31, 2016, and be submitted within 15 days from the date to which it relates.

It has also been decided to have periodical interactions with senior executives of your bank dealing with government business. Such meetings will be held by the Regional Offices concerned of Reserve Bank, except in the case of State Bank of India, where the meetings will be held by the Central Office.

Oversight of Government Business in Agency Banks (contd.)

The purpose of the informal meetings would be to maintain a line of communication with the agency bank and to have first-hand information and feedback on government business being conducted by it. The agenda for discussion would broadly depend on the bank's size and nature of government business being handled by it. The discussions would, at a minimum, include the following:

a. Developments in the agency bank's government business since last inspection;

b. Sustenance of compliance with inspection report findings;

c. Progress in the case of large frauds relating to government business;

d. Position with regard to complaints;

e. Pension related issues;

f. Issues raised by Central and State Government Departments such as delays in remittance of government funds and penalties imposed.

g. Issues raised by the Office of C&AG and other government agencies in their periodical audit/inspection reports regarding the conduct of government business by the agency bank; and

h. Other related issues

Impact Assessment

Major implications include:

- Head Offices of Agency Banks that were previously not a part of the inspection will now be included. Consequently, these branches will be required to maintain all the requisite data to be provided within the timelines prescribed.
- Though some relief may be obtained from the scrapping of issue of Reports post inspection, the Agency Banks are expected to work on 'Action Points' as pointed out during such review with special emphasis on 'Major' Action Points. Thus, the Internal Audit departments of these banks will be required to thoroughly understand the form and essence of the points noted and ensure that the steps taken by the Bank address the problems noted.
- As a part of the offsite monitoring of government business the agency banks will have to put a system/ process in place to report details of their government business as per the formats enclosed in Annexes 1 and 2.
- RBI plans to hold regular meetings to address key regulatory and functional issues faced by these Agency Banks. Thus, they will be required to maintain record of trends hampering their operations and have such data readily available.

Priority Sector Lending Certificates

RBI Circular Reference: RBI/2015-16/366
Date of Notification: April 7, 2016
Applicable Entities: The Chairman/ Managing Director/Chief Executive Officer [All Scheduled Commercial Banks (including Regional Rural Banks)/Urban Co-operative Banks/ Local Area Banks]

Background and Objective

Priority Sector Lending Certificates (PSLCs) are tradable certificates issued against priority sector loans of banks so as to enable banks to achieve their specified target and sub-targets for priority sector lending through purchase of these instruments in the event of a shortfall and at the same time incentivizing the surplus banks to lend more to these sectors.

The introduction of PSLCs is a mechanism to incentivize banks having surplus in their lending to different categories of priority sector.

To enable banks to achieve the priority sector lending target and sub-targets by purchase of these instruments in the event of shortfall and at the same time incentivize the surplus banks; thereby enhancing lending to the categories under priority sector.

Key directives issued by RBI

i. Purpose: To enable banks to achieve the priority sector lending target and sub-targets by purchase of these instruments in the event of shortfall and at the same time incentivize the surplus banks; thereby enhancing lending to the categories under priority sector.

ii. Nature of the instruments: The seller will be selling fulfillment of priority sector obligation and the buyer would be buying the same. There will be no transfer of risks or loan assets.

iii. Modalities: The PSLCs will be traded through the CBS portal (e-Kuber) of RBI. The detailed operational instructions for carrying out the trades are available through the e-Kuber portal.

iv. Sellers/Buyers: Scheduled Commercial Banks (SCBs), Regional Rural Banks (RRBs), Local Area Banks (LABs), Small Finance Banks (when they become operational) and Urban Co-operative Banks who have originated PSL eligible category loans subject to such regulations as may be issued by the Bank.

v. Types of PSLCs: There would be four kinds of PSLCs :–

- PSLC Agriculture: Counting for achievement towards the total agriculture lending target.
- PSLC SF/MF: Counting for achievement towards the sub-target for lending to Small and Marginal Farmers.
- PSLC Micro Enterprises: Counting for achievement towards the sub target for lending to Micro Enterprises.
- PSLC General: Counting for achievement towards the overall priority sector target.

As stated in the Master Circular FIDD.CO.Plan.BC.4/04.09.01/2015-16 on Priority Sector Lending - Targets and Classifications dated July 01, 2015, Priority Sector comprises several categories, including Agriculture and Micro Enterprises. In addition to the overall target and sectoral targets for lending to agriculture and micro enterprises, banks are required to achieve specified sub-target for lending to Small and Marginal Farmers. Accordingly, to avoid computational issues in assessing the achievement/shortfall of PSL targets, it is advised that the above four types of certificates will represent specific loans and count for specific sub-targets/targets as indicated in the regulation

vi. Computation of PSL achievement: A bank's PSL achievement would be computed as the sum of outstanding priority sector loans, and the net nominal value of the PSLCs issued and purchased. Such computation will be done separately where sub targets are prescribed as on the reporting date.

Priority Sector Lending Certificates (contd.)

vii. Amount eligible for issue: Normally PSLCs will be issued against the underlying assets. However, with the objective of developing a strong and vibrant market for PSLCs, a bank is permitted to issue PSLCs upto 50 percent of previous year's PSL achievement without having the underlying in its books. However, as on the reporting date, the bank must have met the priority sector target by way of the sum of outstanding priority sector lending portfolio and net of PSLCs issued and purchased. To the extent of shortfall in the achievement of target, banks may be required to invest in RIDF/other funds as hitherto.

viii. Credit Risk: There will be no transfer of credit risk on the underlying as there is no transfer of tangible assets or cash flow.

ix. Expiry date: All PSLCs will expire by March 31st and will not be valid beyond the reporting date (March 31st), irrespective of the date it was first sold.

x. Settlement: The settlement of funds will be done through the platform as explained in the e-Kuber portal.

xi. Value and fee: The nominal value of PSLC would represent the equivalent of the PSL that would get deducted from the PSL portfolio of the seller and added to the PSL portfolio of the buyer. The buyer would pay a fee to the seller which will be market determined.

xii. Lot Size: The PSLCs would have a standard lot size of ₹ 25 lakh and multiples thereof.

xiii. Accounting: The fee paid for purchase of the PSLC would be treated as an 'Expense' and the fee received for the sale of PSLCs would be treated as 'Miscellaneous Income'.

xiv. Disclosures: Both seller and buyer shall report the amount of PSLCs (category-wise) sold and purchased during the year in the 'Disclosures to the Balance Sheet'.

Impact Assessment

Any registered lender (including microfinance institutions, cooperative banks, banking correspondents, etc.) who has made loans to eligible categories would get 'Priority Sector Lending Certificates' for the amount of these loans. A market would then be opened up for these certificates, where deficient banks can buy certificates to compensate for their shortfall in lending.

If the loans default, for example, no loss would be borne by the certificate buyer. The merit of this scheme is that it would allow the most efficient lender to provide access to the poor, while finding a way for banks to fulfil their norms at lower cost.

Reserve Bank also launched a platform to enable trading in the certificates through its Core Banking Solution (CBS) portal (e-Kuber).

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 as there is no transfer of tangible assets or cash flow. The settlement of funds will be done through the e-Kuber portal.

Issuance of Rupee denominated bonds overseas

RBI Circular Reference: RBI/2015-16/372
Date of Notification: April 13, 2016
Applicable Entities: All Category-I Authorized Dealer Banks

Background and Objective

The Reserve Bank of India ("RBI") in September 2015 issued guidelines1 for issuance of Indian Rupee denominated bonds ("RDBs") overseas ("Guidelines") which has been recently enhanced. RDBs have ushered a new era for debt-raising by Indian companies, and will integrate financial markets in India further with the rest of the world. Allowing companies to issue RDBs abroad will create new means for both pricing and currency risks, while opening a window for rupee-denominated instruments to trade abroad. This will also aid foreign promoters to invest in Indian entities other than the traditional equity investment channels.

Key directives issued by RBI

i. According to the Monetary Policy Statement, the current limit of USD 51 billion for foreign investment in corporate debt, as was given in A.P. (DIR Series) circular No. 94 dated April 01, 2013, has been fixed in Rupee terms at Rs. 2443.23 billion. Issuance of Rupee denominated bonds overseas will be within this aggregate limit of foreign investment in corporate debt.

ii. With fixing of aggregate limit of foreign investment in corporate debt in Rupee terms, the provision at Sr. No. 7 of the table in the Annex to the aforesaid circular dated September 29, 2015 regarding the amount of borrowing by issuance of Rupee denominated bonds overseas has also been modified. As the overall limit is now prescribed in Rupee terms, the maximum amount which can be borrowed by an entity in a financial year under the automatic route by issuance of these bonds will be Rs. 50 billion and not USD 750 million as given in the circular. Proposals to borrow beyond Rs. 50 billion in a financial year will require prior approval of the Reserve Bank.

iii. Further, in order to have consistency regarding eligibility of foreign investors in corporate debt, the criteria for investors and location for issuance of these bonds has been modified. The Rupee denominated bonds can only be issued in a country and can only be subscribed by a resident of a country:

- that is a member of Financial Action Task Force (FATF) or a member of a FATF-Style Regional Body; and
- whose securities market regulator is a signatory to the International Organization of Securities Commission's (IOSCO's) Multilateral Memorandum of Understanding (Appendix A Signatories) or a signatory to bilateral Memorandum of Understanding with the Securities and Exchange Board of India (SEBI) for information sharing arrangements; and
- should not be a country identified in the public statement of the FATF as:
  - A jurisdiction having a strategic Anti-Money Laundering or Combating the Financing of Terrorism deficiencies to which counter measures apply; or
  - A jurisdiction that has not made sufficient progress in addressing the deficiencies or has not committed to an action plan developed with the Financial Action Task Force to address the deficiencies.

iv. It has been decided to reduce the minimum maturity period for Rupee denominated bonds issued overseas to three years in order to align with the maturity prescription regarding foreign investment in corporate bonds through the Foreign Portfolio Investment (FPI) route.

v. Borrowers issuing Rupee denominated bonds overseas should incorporate clause

Issuance of Rupee denominated bonds overseas (contd.)

in the agreement / offer document so as to enable them to obtain the list of primary bond holders and provide the same to the regulatory authorities in India as and when required. The agreement / offer document should also state that the bonds can only be sold / transferred / offered as security overseas subject to compliance with aforesaid IOSCO / FATF jurisdictional requirements.

vi. In order to capture inflows/ outflows (principal only) on account of the borrowing by issuance of these bonds, AD Category – I banks should report to the Foreign Exchange Department, External Commercial Borrowings Division, Central Office, Shahid Bhagat Singh Road, Fort, Mumbai – 400 001, the figures of actual drawdown(s) / repayment(s) by their constituent borrowers quoting the related loan registration number. Such reporting by email shall be made on the date of transaction itself. This reporting will be in addition to the returns filed with the Department of Statistics and Information Management of the Reserve Bank (viz Form 83 and ECB 2 Return) as in the case of availment of External Commercial Borrowings (ECB).

vii. All other provisions of Circular dated September 29, 2015 remain unchanged. AD Category-I banks may bring the contents of this circular to the notice of their constituents and customers.

Impact Assessment

Major implications include:

- Banks may be required to ensure that the issuance of Rupee denominated bonds overseas be within the aggregate limit of foreign investment in corporate debt of Rs. 2443.23 billion which in foreign currency terms is USD 51 Billion.
- RBI has revised the amount which can be borrowed through issuance of Rupee denominated bonds overseas in a single financial year to Rs. 50 Billion. Thus the banks may need to revise its policy to factor in this new limit requirement and ensure adherence to the same. In an event where the borrowing amount is greater than Rs 50 billion, banks may provide the same only after obtaining prior approval from the RBI.
- Banks are required to ensure that issuance of such bonds are only made in such countries and to such subscribers as has been specified by the RBI through this notification. Banks may therefore need to modify their procedures and policies around the eligibility criteria for investors and location for issuance of these bonds.
- Banks may need to modify its agreement / offer document with the bond holders to account for the changes made in this notification with respect to eligibility criteria, maturity period of bond, transfer/sale of bonds overseas as security etc.
- The banks are required to report the figures of actual drawdown(s) / repayment(s) by their constituent borrowers quoting the related loan registration number. This has to be done daily through email in addition to returns filing. Thus the banks have to incorporate a daily reporting process for drawdown quoting the loan registration number.

Overseas Direct Investment - Submission of Annual Performance Report

RBI Circular Reference: RBI/2015-16/373
Date of Notification: April 13, 2016
Applicable Entities: All Category - I Authorized Dealer Banks

Background and Objective

The controversy surrounding the Panama papers disclosed a list of nearly 500 Indians, including celebrities and industrialists, who allegedly stashed money in offshore entities in Panama, considered to be a tax haven. The Centre has set up a multi-agency group comprise various government agencies - the CBDT, FIU, FT&TR (Foreign Tax and Tax Research) and RBI - to continuously monitor information in the wake of Panama Papers.

Amid this controversy, RBI has expressed concerns over delay in reporting of overseas investments by Indians and has asked Banks to ensure that FEMA regulations are complied with specifically in relation to submission of Annual Performance Report (APR) by resident individuals. This notification aims to streamline the process of submission of APR by the Indian Party (IP) and Resident Individual (RI)

Key directives issued by RBI

At present, an Indian Party (IP) / Resident Individual (RI) which has made an Overseas Direct Investment (ODI) has to comply with certain obligations prescribed under the Notification No. FEMA 120/RB-2004 dated July 07, 2004 as amended from time to time. One of these includes obligation for submission of an Annual Performance Report (APR) in Form ODI Part III to the Reserve Bank by 30th of June every year in respect of each Joint Venture (JV) / Wholly Owned Subsidiary (WOS) outside India set up or acquired by the IP / RI (as prescribed under Regulation 15 of FEMA Notification, ibid).

It has been observed that:

- IP / RI are either not regular in submitting the APR or are submitting it with delay. This is not in line with Regulation 15 of the Notification, ibid.
- Remittance/s and other forms of financial commitment are often facilitated by the designated Authorised Dealer bank (AD bank) under automatic route even though APR in respect of all overseas JV / WOS of the IP / RI effecting such remittance/s have not been submitted. This is in contravention of Regulation 6(2)(iv) of the Notification, ibid.

In order to provide AD banks greater capability to track submission of APRs and also improve compliance level in the matter of submission of APRs by the IPs / RIs, it is now advised as under:

- The online OID application has been suitably modified to enable the nodal office of the AD bank to view the outstanding position of all the APRs pertaining to an applicant including for those JV / WOS for which it is not the designated AD bank. Accordingly, the AD bank, before undertaking / facilitating any ODI related transaction on behalf of the eligible applicant, should necessarily check with its nodal office to confirm that all APRs in respect of all the JV / WOS of the applicant have been submitted;
- Certification of APRs by the Statutory Auditor or Chartered Accountant need not be insisted upon in the case of Resident Individuals. Self-certification may be accepted;
- In case multiple IPs / RIs have invested in the same overseas JV / WOS, the obligation to submit APR shall lie with the IP / RI having maximum stake in the JV / WOS. Alternatively, the IPs / RIs holding stake in the overseas JV / WOS may mutually agree to assign the responsibility for APR submission to a designated entity which may acknowledge its obligation to submit the APR in terms of Regulation 15 (iii) of Notification, ibid, by furnishing an appropriate undertaking to the AD bank;

Overseas Direct Investment - Submission of Annual Performance Report (contd.)

- An IP / RI, which has set up / acquired a JV / WOS overseas in terms of the Regulations of the Notification, ibid, shall submit, to the AD bank every year, an APR in Form ODI Part II in respect of each JV / WOS outside India and other reports or documents by 31st of December each year or as may be specified by the Reserve Bank from time to time. The APR, so required to be submitted, shall be based on the latest audited annual accounts of the JV / WOS unless specifically exempted by the Reserve Bank.

AD banks may issue necessary instructions to all the dealing officials at the bank / branch level and put in place proper processes and systems to ensure compliance with the extant FEMA guidelines. Any non-compliance with the instruction relating to submission of APR shall be treated as contravention of Regulation 15 of the Notification No. FEMA 120/RB-2004 dated July 07, 2004 as amended and viewed seriously.

Impact Assessment

The major implications from the regulation is as follows:

- RBI has modified the online OID application to enable better tracking of the submission of APRs and the banks now need to institute appropriate checks to confirm due submission of APRs by the applicant prior to undertaking any ODI related transaction
- Certification of APRs by the statutory auditor or chartered accountant need not be insisted upon by the banks in the case of resident individuals, and self-certification may be accepted.
- Banks may ensure that the Indian Party / Residential Individual submits an APR in the designated format based on the audited annual accounts of JV / WOS before 31st December or as specified by RBI.
- Banks may need to modify its processes, policies and systems to ensure compliance to these regulations. Necessary instructions and communications may need to be given to the bank’s branches, officials, customers etc. in this regard.

Overseas Direct Investment – Rationalization and reporting of ODI forms

RBI Circular Reference: RBI/2015-16/374
Date of Notification: April 13, 2016
Applicable Entities: All Category - I Authorized Dealer Banks

Background and Objective

RBI permits resident corporate entities and partnership firms registered under the Indian Partnership Act, 1932 are eligible to make investment abroad in Joint Ventures/ Wholly Owned Subsidiaries. For this purpose, an application for Overseas Direct Investment (ODI) was required to be made by the applicant in the prescribed form and manner.

With a view to keep pace with the liberalization in the policy on overseas investments that has enabled many Indian corporates to establish presence in overseas markets, RBI through this notification has rationalized the ODI reporting form and has revamped its Online OID application. RBI has also introduced a new reporting format for Venture Capital Fund (VCF) / Alternate Investment Fund (AIF), Portfolio Investment and overseas investment by Mutual Funds

Key directives issued by RBI

- At present, application for ODI is required to be made in Form ODI – Part I (comprising six sections) for direct investments in Joint Venture (JV) / Wholly Owned Subsidiary (WOS) under automatic route / approval route. Further, remittances and other forms of financial commitment undertaken by the Indian Party (IP) are reported in Form ODI Part II. Annual Performance Report (APR) on the functioning of overseas JV / WOS in Form ODI Part III and details of disinvestment in Form ODI Part IV are currently required to be submitted through the designated Authorised Dealer Bank (AD bank). While Form ODI Part I and Part III are required to be submitted by the applicant undertaking ODI, the Form ODI Part II and Part IV are to be submitted by the AD bank on behalf of the applicant. In order to capture all data pertaining to the IP undertaking ODI as well as the related transaction, it has been decided to subsume Form ODI Part II within Form ODI Part I. Thus the Form ODI will have five sections instead of six as has been specified in the regulation
- Further, a new reporting format has also been introduced for Venture Capital Fund (VCF) / Alternate Investment Fund (AIF), Portfolio Investment and overseas investment by Mutual Funds as per the format in Annex II and Annex III specified in the regulation. In case of reporting purchase and repurchase of ESOPs, the AD banks may continue to report the same in the existing format (Annex IV).
- It is further advised that any post investment changes subsequent to the allotment of the UIN are required to be reported as indicated in the operational instructions on submission of Form ODI Part I (Annex I).
- AD banks before executing any ODI transaction must obtain the Form ODI Part I from the applicant in terms of Regulation 6 (2) (vi) of the Notification, ibid. Further, the AD bank should report the relevant Form ODI in the online OID application and obtain UIN while executing the remittance.
- In case of RI undertaking ODI, certification of Form ODI Part I by statutory auditor or chartered accountant need not be insisted upon. Self-certification by the RI concerned may be accepted.
- The revised ODI forms and instructions for filling up the forms will come into effect immediately.
- Reserve Bank reserves the right to place the information received through the forms in the public domain.
- As hitherto, the AD banks would continue to receive the ODI forms as also documents related to the post investment changes in the physical form. These should be preserved UIN wise for submission to the Reserve Bank, if and when specifically required.

Overseas Direct Investment – Rationalization and reporting of ODI forms (contd.)

- AD banks should put in place proper processes and systems and issue necessary instructions to all the dealing officials at the bank / branch level to ensure compliance with these guidelines.

<u>Online reporting of Form ODI</u>

- Online OID application has been revamped to further reduce the traditional paper based filing system, to provide the AD banks fast and easy accessibility to data for reference purpose, to improve the coverage and ensure proper monitoring of the flows in a dynamic environment. Accordingly, modules in online OID application have been added, wherein all the ODI forms as mentioned in this circular may be reported.
- A concept of AD Maker, AD Checker and AD Authorizer has now been introduced in the online application process. The AD Maker shall initiate the transaction and submit to the AD Checker for verification of the transaction before submission to Reserve Bank. The AD Authorizer shall have the authority to ratify these ODI transaction which are pending due to various reasons, such as, delay arising on account of seeking further clarification from the IP / RI, technical difficulty in reporting the transaction in the online OID application and on account of delay in completing the due diligence process.
- The AD bank may identify an official in the middle management level who may be assigned the responsibility of the AD Authorizer. The Authorizer shall be entrusted with the following responsibilities:

  i. Examining the genuineness of the reason/s behind late submission of the ODI Forms.

  ii. Ratifying those online transaction which are reported with a delay owing to operational difficulties after recording the facts in the online OID application under the Remarks column.

- The Centralized Unit / Nodal Office of the AD bank should ensure online reporting of Overseas Investments in the application hosted on the website https://oid.rbi.org.in
- he AD Maker, AD Checker and AD Authoriser identified by the AD Bank may obtain a user-id for accessing the online OID application by submitting a request in the prescribed format (Annex V).
- Any non-compliance with respect to the instruction for submission of Form ODI Part I, Part II and Part III shall be treated as contravention of Regulation 6 (2) (vi), Regulation 15 and Regulation 16 respectively, of the FEMA Notification No 120/RB-2004 dated July 07, 2004 as amended. The Reserve Bank will take a serious view on non-compliance with the guidelines / instructions and initiate penal action as considered necessary.

Impact Assessment

The major implications from the regulation is as follows:

- RBI has revised and simplified the ODI forms by incorporating Form ODI Part II within Form ODI Part I. Banks may ensure that forms from the applicants are accepted on this revised basis in the manner prescribed by the RBI and that the overseas investments are duly reported in the online OID application
- Banks may report the Venture Capital Fund (VCF) / Alternate Investment Fund (AIF), Portfolio Investment and overseas investment by Mutual Funds as per the new reporting format. This is not applicable in case of purchase and repurchase of ESOPs and banks may continue to report the same in the existing format
- It is mandatory for the banks to obtain Form ODI Part I from the applicant prior to execution of a ODI transaction and report the same in the online OID application. The UIN from the application may be preserved by the bank for future use

Overseas Direct Investment – Rationalization and reporting of ODI forms (contd.)

- Certification of APRs by the statutory auditor or chartered accountant need not be insisted upon by the banks in the case of resident individuals, and self-certification may be accepted.
- The OID online application has been modified by the RBI to include a concept of AD Maker, AD Checker and AD Authorizer. Thus, banks may identify and nominate personnel from their internal team to fulfil these roles in order to operate the OID application and may obtain user ids for each of these personnel to enable access to the application
- Banks may need to modify its processes, policies and systems to ensure compliance to these regulations. Necessary instructions and communications may need to be given to the bank’s branches, officials, customers etc. in this regard.

Guidelines on Investment Advisory Services offered by Banks

RBI Circular Reference: RBI/2015-16/379
Date of Notification: April 21, 2016
Applicable Entities: All Scheduled Commercial Banks (excluding RRBs)

Background and Objective

Traditionally banking function in India is considered as taking deposits and providing loans. This is substantially enhanced and banks today provide various products and services such as selling of insurance products, mutual funds, acting as financial consultants etc. These activities are generally monitored by a bank internally by implementing stringent policies to avoid conflict of interest inter alia by maintaining Chinese walls, entering into service level agreements and/or by adopting a methodology where entities are set up to undertake visibly distinct types of business / activity. After all, and specifically post the global financial crisis, it is a constant endeavor to repose faith of public at large in the banking and financial system.

Towards this objective, on 21st April 2016, the Reserve Bank of India ("RBI") has issued the 'Guidelines on Investment Advisory Services offered by Banks' ("IA Guidelines"). Investment advisory services in the context of banks has seen significant development specifically since 2013. RBI had previously issued draft guidelines on wealth management and marketing and distribution services offered by banks in June 2013 and had sought comments from the market. In the draft guidelines, it was proposed that banks must set up a separate subsidiary or an identifiable department for providing wealth management services to avoid misselling and maintain an arm's-length distance from the main banking business.

Key directives issued by RBI

i. IAS is defined and regulated by SEBI under the SEBI (Investment Advisors) Regulations, 2013, and entities offering these activities need to be registered with SEBI. In view of the same it is advised that henceforth, banks cannot undertake IAS departmentally. Accordingly, banks desirous of offering these services may do so either through a separate subsidiary set up for the purpose or one of the existing subsidiaries after ensuring that there is an arm's length relationship between the bank and the subsidiary.

ii. The sponsor bank should obtain specific prior approval of Department of Banking Regulation before offering IAS through an existing subsidiary or for setting up a subsidiary for this purpose. (Setting up of any subsidiary will, as hitherto, be subject to the extant guidelines on para-banking activities of banks).

iii. All bank sponsored subsidiaries offering IAS will be registered with SEBI and regulated as per the SEBI (Investment Advisors) Regulations, 2013, and shall adhere to all relevant SEBI rules and regulations in this regard.

iv. AS provided by the bank sponsored subsidiaries should only be for the products and services in which banks are permitted to deal in as per Banking Regulation Act, 1949.

v. The instructions/guidelines on KYC/AML/CFT applicable to the subsidiary, issued by the concerned regulator, as amended from time to time, may be adhered to in respect of customers to whom IAS is being provided.

vi. Banks which are presently offering IAS may reorganize their operations in accordance with these guidelines within a period of three years from the date of issue of this circular.

Impact Assessment

Major implications include:

- Banks who intend to provide investment advisory services to its customers can do so only through a separate subsidiary established for this purpose while also ensuring that there is an arm's length relationship between the bank and this subsidiary.

Guidelines on Investment Advisory Services offered by Banks (contd.)

- Banks may need to ensure that prior approval from the Department of Banking Regulation has been obtained before providing such services through this subsidiary and that the subsidiary is duly registered with SEBI
- Banks may need to ensure adherence to the SEBI Regulations, 2013, Banking Regulation Act, 1949 and instructions and guidelines pertaining to KYC/AML/CFT in relation to the operations of the subsidiary as specified in the regulation.
- Banks currently involved in providing investment advisory services may need to reorganize their operations to ensure adherence to these guidelines within a period of three years from the date of issue of this regulation.

Foreign Exchange Management (Remittance of Assets) Regulations, 2016

RBI Circular Reference: RBI/2015-16/384
Date of Notification: April 28, 2016
Applicable Entities: All Category - I Authorised Dealer and Authorised Banks

Key directives issued by RBI

The regulation defines some key definitions pertaining to remittance of assets including:

- Non resident Indian (NRI)
- Person of Indian Origin (PIO)
- Remittance of Asset
- Expatriate Staff
- Not permanently resident

The salient features of the Remittance of Assets regulations are given as under:

i. Remittance of capital assets in India held by a person whether resident in or outside India would require the approval of the Reserve Bank except to the extent provided in the Act or Rules or Regulations made under the Act.

ii. In terms of regulation 4(1) of the Remittance of Assets regulations, ADs may allow remittance of assets, up to USD one million per financial year, by a foreign national (not being a PIO or a citizen of Nepal or Bhutan), on submission of documentary evidence, in case:

   - The person has retired from employment in India;
   - the person has inherited the assets from a person referred to in section 6(5) of the Act;
   - the person is a non-resident widow/ widower and has inherited assets from the person's deceased spouse who was an Indian citizen resident in India.

   In case the remittance is made in more than one instalment, the remittance of all instalments should be made through the same AD.

iii. In terms of regulation 4(1), ibid, ADs may allow remittance of balance amount, held by a foreign student in a bank account in India, after completion of his/her studies/training in India.

iv. In terms of regulation 4(2), ibid, ADs may allow NRIs and PIOs, on submission of documentary evidence, to remit up to USD one million, per financial year:

   - out of balances held in their Non-Resident (Ordinary) Accounts (NRO accounts)/ sale proceeds of assets/ assets acquired in India by way of inheritance/ legacy;
   - out of assets acquired under a deed of settlement made by either of his parents or a relative as defined in Companies Act, 2013. The settlement should take effect on the death of the settler

   In case the remittance is made in more than one instalment, the remittance of all instalments should be made through the same AD. Further, where the remittance is to be made from the balances held in the NRO account, the Authorised Dealer should obtain an undertaking from the account holder stating that "the said remittance is sought to be made out of the remitter's balances held in the account arising from his/ her legitimate receivables in India and not by borrowing from any other person or a transfer from any other NRO account and if such is found to be the case, the account holder will render himself/ herself liable for penal action under FEMA."

Foreign Exchange Management (Remittance of Assets) Regulations, 2016 (contd.)

v. In terms of regulation 4(3), ibid, ADs may allow remittances by Indian companies under liquidation on directions issued by a Court in India.

vi. In terms of regulation 5, ibid, ADs may also allow Indian entities to remit their contribution towards the provident fund/ superannuation/ pension fund in respect of their expatriate staff resident in India but "not permanently resident" in India.

vii. In terms of regulation 6, ibid, ADs may permit remittance of assets on closure or remittance of winding up proceeds of branch office/ liaison office (other than project office) as per Reserve Bank's directions from time to time.

viii. In terms of regulation 7, ibid, remittance of assets on hardship ground and remittances by NRIs and PIOs in excess of USD one million/financial year would require the prior approval of the Reserve Bank.

ix. Any transaction involving remittance of assets under these regulations are subject to the applicable tax laws in India.

Impact Assessment

- Banks may update the modified definitions as per the regulation as part of its policies and procedures
- Banks may now allow remittance of assets, up to USD one million per financial year, by a foreign national (not being a PIO or a citizen of Nepal or Bhutan), on submission of documentary evidence as specified in the regulation
- In case the remittance is required to be made out of balances in the NRO account, bank should obtain the appropriate undertaking from the account holder as specified in the regulation
- RBI now allows banks to undertake the following forms of remittances:
  - remittance of balance amount, held by a foreign student in a bank account in India, after completion of his/her studies/training in India.
  - remittances by Indian companies under liquidation on directions issued by a Court in India.
  - remittances of Indian entities of their contribution towards the provident fund/ superannuation/ pension fund in respect of their expatriate staff resident in India but "not permanently resident" in India.
  - remittance of assets on closure or remittance of winding up proceeds of branch office/ liaison office (other than project office) as per Reserve Bank's directions from time to time.

Import of Goods: Import Data Processing and Monitoring System (IDPMS)

RBI Circular Reference: RBI/2015-16/385
Date of Notification: April 28, 2016
Applicable Entities: All Category-I Authorised Dealer Banks

Background and Objective

Frauds pertaining to advance import payments in the banking sector in 2014-2015 highlighted the loopholes exploited by people in the foreign exchange department of banks. RBI has issued this guideline to increase the accountability of import transactions and reduce instances of submission of fake bill of entries to close the outstanding import payments. This notification aims to facilitate efficient processing and effective monitoring of all import transactions, as all the BoE data will have to be updated on a real time basis and BoE uploaded by the customs will be cross checked with the hard copies submitted by the importers.

This will further ensure smooth and effective remittance and receipt of import payments as RBI will have access to all data on a secured server and will be able to able to track the import transactions.

Key directives issued by RBI

i. Reserve Bank of India had constituted a Working Group (Chairman: Shri A. K. Pandey, CGM, FED) comprising of representatives from Customs, Directorate General of Foreign Trade (DGFT), Special Economic Zone (SEZ), Foreign Exchange Dealers Association of India (FEDAI) and select Authorised Dealer banks (AD banks), to suggest putting in place a comprehensive IT- based system to facilitate efficient processing of all import transactions and effective monitoring thereof. The Working Group had recommended development of a robust and effective IT- based system "Import Data Processing and Monitoring System "(IDPMS) on the lines of "Export Data Processing and Monitoring System" (EDPMS) in consultation with the Customs authorities and other stakeholders.

ii. To track the import transactions through banking system, Customs will modify the Bill of Entry format to display the AD Code of bank concerned, as reported by the importers. Primary data on import transactions from Customs and SEZ will first flow to the RBI secured server and thereupon depending on the AD code shall be shared with the respective banks for taking the transactions forward. The AD bank shall enter every subsequent activity, viz. document submission, outward remittance data, etc. in IDPMS so as to update the RBI database on real time basis. It is therefore, necessary that AD banks upload and download data on daily basis.

iii. For non EDI (manual) Customs ports, till they are upgraded to EDI (computerised) ports, nodal branch of AD Category – I banks will upload Bills of Entry (BoE) data based on original BoE with stamp/signature of the Customs as submitted by importer. Under no circumstances, AD category – I banks will process the transactions till the concerned BoE is reflected in the IDPMS. Customs will share a copy of manual BoE with respective Regional Office of RBI for information as they presently do for shipping bills in the case of exports.

iv. The date of operationalization of IDPMS will be notified shortly. All import remittances outstanding as on the notified date shall have to be uploaded in IDPMS. Further, to facilitate smooth processing of import transactions and closure of BoE and advance remittances in IDPMS, the following guidelines will be followed by the AD category – I banks:

v. Write off of import bills:

- AD Category I banks can consider closure of bills in IDPMS that involve write off to the extent of 5% of invoice value in cases where the amount declared in BoE varies from the actual remittance marginally due.

Import of Goods: Import Data Processing and Monitoring System (IDPMS) (contd.)

to discounts, fluctuation in exchange rates, change in the amount of freight, insurance, etc. Cases, where write off is on account of quality issues; short shipment or destruction of goods by the port / Customs / health authorities, may be closed with remarks subject to submission of satisfactory documentation for the same, irrespective of the amount involved.

- While allowing write off, AD Category - I banks must ensure that:
  - The case is not the subject matter of any pending civil or criminal suit;
  - The importer has not come to the adverse notice of the Enforcement Directorate or the Central Bureau of Investigation or any such other law enforcement agency; and
  - There is a system in place under which internal inspectors or auditors of the AD category – I banks (including external auditors appointed by authorised dealers) should carry out random sample check / percentage check of write-off of import bills; and
- Cases not covered by the above instructions / beyond the above limits, may be referred to the concerned Regional Office of Reserve Bank of India.
- The above guidelines are only meant to facilitate closure of bills in IDPMS and do not in any way absolve the importer from remitting / receiving the amount in case circumstances change.

vi. Extension of time

- AD Category – I banks can consider granting extension of time for settlement of import dues up to a period of six months at a time (maximum up to the period of three years) irrespective of the invoice value for delays on account of disputes about quantity or quality or non-fulfilment of terms of contract; financial difficulties and cases where importer has filed suit against the seller. In cases where sector specific guidelines have been issued by Reserve Bank of India for extension of time (i.e. rough, cut and polished diamonds), the same will be applicable.
- While granting extension of time, AD Category –I banks must ensure that:
  - The import transactions covered by the invoices are not under investigation by Directorate of Enforcement / Central Bureau of Investigation or other investigating agencies;
  - While considering extension beyond one year from the date of remittance, the total outstanding of the importer does not exceed USD one million or 10 per cent of the average import remittances during the preceding two financial years, whichever is lower; and
  - Where extension of time has been granted by the AD Category – I banks, the date up to which extension has been granted may be indicated in the 'Remarks' column.
- Cases not covered by the above instructions / beyond the above limits, may be referred to the concerned Regional Office of Reserve Bank of India.

vii. Follow-up for Evidence of Import

- As per extant guidelines, AD Category - I banks have to submit a statement on half-yearly basis as at the end of June & December of every year, in form BEF furnishing details of import transactions, exceeding USD 100,000 in respect of which importers have defaulted in submission of appropriate document evidencing import within six months from the date of remittance using the online eXtensible Business Reporting Language (XBRL) system

Import of Goods: Import Data Processing and Monitoring System (IDPMS) (contd.)

on bank-wide basis to the respective Regional Offices of the RBI.

- On operationalization of IDPMS, all outstanding import remittances, irrespective of the amount involved, will be uploaded into the system and submission of a separate BEF statement would be discontinued from a date to be notified separately.
- AD Category – I banks are required to follow up submission of evidence of import and remittance within stipulated time irrespective of the amount involved..

viii. AD Category – I banks shall put in place a system to ensure that all import transactions and related remittances are processed only through IDPMS from the date to be notified shortly. The AD category – I banks should, therefore be in readiness mode for switching to the proposed IT based system. The requisite message formats and technical specifications have been shared with AD category –I banks via e-mail. These have also been placed on website (https://edpms.rbi.org.in)

Impact Assessment

- Banks may develop and put in place a system to ensure that all import transactions and related remittances are processed only through IDPMS. Banks may be required to modify their internal system and implement a robust automated system for efficient and timely follow-up of pending BoE. Also they may seek to integrate and link their internal system with IDPMS.
- Banks may incorporate the abovementioned requirements for writing off transactions and close the bills on IDPMS where the difference between the actual remittance and that on Bill of Entry is to the extent of 5% of the invoice value after ensuring satisfactory documentation has been received to evidence the same. Banks may document the satisfactory documents to be collected to allow write off of import payments.
- Banks may take a customer declaration or an intimation stating that the case is not the subject matter of any pending civil or criminal suit and may ensure that the customer is not a part of the Caution list or any other list to evidence that the customer has not come to the adverse notice of any of the Law enforcement agencies. Any other case may be referred to the concerned Regional Office of RBI and a process for the same may be instituted.
- Banks may set a process to ensure that extension of time period in case of capital goods does not exceed 3 Years and for others does not exceed 6 months irrespective of the value of the transaction.
- While granting extension the bank will now have to ensure that a customer declaration or an intimation on its letterhead stating that the transactions are not under investigation by any of the agencies has been received.
- Banks may be required to further ensure that while considering extension beyond one year from the date of remittance, the total outstanding of the importer does not exceed USD one million or 10 per cent of the average import remittances during the preceding two financial years, whichever is lower. The bank may take an undertaking on its letter head or any other documentary evidence that it deems sufficient to evidence the same.
- Earlier banks had to submit a semi-annual BEF statement of outstanding transactions only above USD 100,000 but on operationalization of IDPMS, banks may now upload all outstanding transactions irrespective of their value on IDPMS and follow up on them. Unlike earlier this is for all outstanding transactions irrespective of their values and thus money launderers will not be able to pass under the radar behind the limit of USD 100,000 anymore.

Our point of view on key RBI guidelines issued in March 2016

Master Circular – Basel III Capital Regulations - Revision

RBI Circular Reference: RBI/2015-16/331
Date of Notification: March 1, 2016
Applicable Entities: All Scheduled Commercial Banks (Excluding Local Area Banks and Regional Rural Banks)

Background and Objective

The guideline reviews the treatment of certain balance sheet items (Revaluation Reserves, Foreign Currency Translation Reserve and Deferred Tax Assets) as per the extant regulations on banks' capital as it differs from what is prescribed by the Basel Committee on Banking Supervision (BCBS). As per the current framework, Banks in India will have to raise more capital than would be required had the Basel rules been applied as they are.

Key directives issued by RBI

The guideline has provided guidance on revised treatment of the following balance sheet items:

1. **Revaluation reserves:** Revaluation reserves arising out of change in the carrying amount of a bank's property consequent upon its revaluation may, at the discretion of banks, be reckoned as CET1 capital at a discount of 55%, instead of as Tier 2 capital under extant regulations, subject to them meeting the prescribed criteria in the regulation
2. **Foreign currency translation reserve (FCTR):** Banks may, at their discretion, reckon foreign currency translation reserve arising due to translation of financial statements of their foreign operations in terms of Accounting Standard (AS) 11 as CET1 capital at a discount of 25% subject to them meeting the prescribed criteria in the regulation
3. **Deferred Tax Assets (DTAs):**
   i. Deferred tax assets (DTAs) associated with accumulated losses and other such assets should be deducted in full from CET1 capital.

   ii. DTAs which relate to timing differences (other than those related to accumulated losses) may, instead of full deduction from CET1 capital, be recognized in the CET1 capital up to 10% of a bank's CET1 capital, at the discretion of banks.

   iii. the limited recognition of DTAs as at (ii) above along with limited recognition of significant investments in the common shares of unconsolidated financial (i.e.. banking, financial and insurance) entities in terms of paragraph 4.4.9.2(C) (iii) of the Master Circular taken together must not exceed 15% of the CET1 capital, calculated after all regulatory adjustments set out from paragraphs 4.4.1 to 4.4.9 of the Master Circular. (Please refer to the Annex given as part of the notification for any clarifications). Banks shall ensure that the CET1 capital arrived at after application of 15% limit should in no case result in recognizing any item more than the 10% limit applicable individually

   iv. The amount of DTAs which are to be deducted from CET1 capital may be netted with associated deferred tax liabilities (DTLs) subject to the conditions specified in the notification.

   v. The amount of DTAs which is not deducted from CET1 capital (in terms of para (ii) above) will be risk weighted at 250% as in the case of significant investments in common shares not deducted from bank's CET1 capital as indicated in paragraph 4.4.9 (C)(iii) of the Master Circular.

Master Circular – Basel III Capital Regulations – Revision (contd.)

Impact Assessment

1. Banks will have to treat revaluation reserve arising out of change in the carrying amount of a bank's property consequent upon its revaluation. Instances where the value of the property held by the Bank has been substantially impaired by an event, are to be immediately revalued and appropriately factored into capital adequacy computations
2. Bank will have to apply a take on its foreign currency capital translation reserve by applying a 25% discount on its books subject to FCTR being shown in the reserves and surplus in the balance sheet of the bank and the external auditor not having expressed a qualified opinion on FCTR.
   Discounting the FCTR will reduce the amount of additional reserves that the Bank generates through Foreign Currency operations, reduce the asset base and accordingly provide for capital computation on the said base
3. Reduction in DTAs associated with accumulated losses and other such assets from CET 1 capital will reduce the asset base of the Bank and hence increase capital adequacy requirements. Treatment of DTAs as per the amendments provided will attract higher capital requirements

Sovereign Gold Bonds- 2016 Series-II

RBI Circular Reference: RBI/2015-16/333
Date of Notification: March 4, 2016
Applicable Entities: The Chairman& Managing Director All Scheduled Commercial Banks, (Excluding RRBs) Stock Holding Corporation of India Ltd.(SHCIL)

Background and Objective

Sovereign Gold Bonds Scheme is an indirect way of investing in Gold. Instead of buying physical gold, investors can invest in gold in a paper form through Sovereign Gold Bonds. The under-lying asset for these bonds is Gold. These bonds will track the price of gold, plus an extra interest earning on top of that.

The main objective of the scheme is to reduce the demand for physical gold and shift a part of the gold imported every year for investment purposes, into financial savings through Gold Bonds. Earlier, the Government had launched the Sovereign Gold Bond Scheme on November 5, 2015 which was aimed at encouraging investors to hold gold equivalent in demat form and thereby reducing demand for physical gold. (India is one of the largest consumer and imports about 1,000 tonnes of gold every year.)

The first two tranches of the scheme have garnered ₹ 1,050 crore for the government. Through this notification, the RBI (on behalf of the Govt of India) has announced the launch of the third tranche of its Gold Bond Scheme which will remain open from March 8 to March 14, 2016. Bonds will be issued to subscribers on March 29, 2016. The issue price of the Gold Bond has been fixed at ₹ 2,916 per gram of gold

Key directives issued by RBI

Government of India has vide its Notification F.No. 4(19)-W&M/2014 dated March 04, 2016 announced that the Sovereign Gold Bonds, 2016 (“the Bonds”) will be open for subscription from March 8, 2016 to March 14, 2016. The Government of India may, with prior notice, close the Scheme before the specified period. The terms and conditions of the issuance of the Bonds has been defined in the circular pertaining to the following aspects:

- **Eligibility for investment:** The Bonds under this Scheme may be held by a person resident in India, being an individual, in his capacity as such individual, or on behalf of minor child, or jointly with any other individual. The bond may also be held by a Trust, Charitable Institution and University.
- **Form of Security:** The Bonds shall be issued in the form of Government of India Stock in accordance with section 3 of the Government Securities Act, 2006. The investors will be issued a Holding Certificate (Form C). The Bonds shall be eligible for conversion into de-mat form.
- **Date of issue:** March 29, 2016
- **Denomination:** The Bonds shall be denominated in units of one gram of gold and multiples thereof. Minimum investment in the Bonds shall be two grams with a maximum limit of subscription of five hundred grams per person per fiscal year (April – March).
- **Issue Price:** Price of the Bonds shall be fixed in Indian Rupees on the basis of the previous week’s (Monday – Friday) simple average closing price for gold of 999 purity, published by the India Bullion and Jewelers Association Ltd. (IBJA).
- **Interest:** The Bonds shall bear interest at the rate of 2.75 percent (fixed rate) per annum on the amount of initial investment. Interest shall be paid in half-yearly rests and the last interest shall be payable on maturity along with the principal.
- **Receiving Offices:** Scheduled commercial banks (excluding RRBs), designated Post Offices (as may be notified) and Stock Holding Corporation of India Ltd (SHCIL) are authorized to receive applications for the Bonds either directly or through agents.

Sovereign Gold Bonds- 2016 Series-II (contd.)

- **Payment options:** Payment shall be accepted in Indian Rupees through Cash up to a maximum of Rs.20,000/- or Demand Drafts or Cheque or Electronic banking. Where payment is made through cheque or demand draft, the same shall be drawn in favor of receiving office.
- **Redemption:** i) The Bonds shall be repayable on the expiration of eight years from March 29, 2016, the date of issue of Gold bonds. Pre-mature redemption of the Bond is permitted from fifth year of the date of issue on the interest payment dates. ii) The redemption price shall be fixed in Indian Rupees on the basis of the previous week's (Monday – Friday) simple average closing price for gold of 999 purity, published by IBJA.
- **Repayment:** The receiving office shall inform the investor of the date of maturity of the Bond one month before its maturity.
- **Eligibility for Statutory Liquidity Ratio (SLR):** Eligible
- **Loan against bonds**: The Bonds may be used as collateral for loans. The Loan to Value ratio will be as applicable to ordinary gold loan mandated by the RBI from time to time. The lien on the Bonds shall be marked in the depository by the authorized banks.
- **Tax Treatment:** Interest on the Bonds shall be taxable as per the provisions of the Income-tax Act, 1961. Capital gains tax treatment will be the same as that for physical gold.
- **Applications:** Subscription for the Bonds may be made in the prescribed application form (Form 'A') or in any other form as near as thereto stating clearly the grams of gold and the full name and address of the applicant. The receiving office shall issue an acknowledgment receipt in Form 'B' to the applicant.
- **Nomination:** Nomination and its cancellation shall be made in Form 'D' and Form 'E', respectively, in accordance with the provisions of the Government Securities Act, 2006 (38 of 2006) and the Government Securities Regulations, 2007, published in part III, Section 4 of the Gazette of India dated December 1, 2007.
- **Transferability:** The Bonds shall be transferable by execution of an Instrument of transfer as in Form 'F', in accordance with the provisions of the Government Securities Act, 2006 (38 of 2006) and the Government Securities Regulations, 2007, published in part III, Section 4 of the Gazette of India dated December 1, 2007.
- **Tradability of bonds:** The Bonds shall be eligible for trading from such date as may be notified by the Reserve Bank of India.
- **Commission for distribution:** Commission for distribution shall be paid at the rate of rupee one per hundred of the total subscription received by the receiving offices on the applications received and receiving offices shall share at least 50% of the commission so received with the agents or sub-agents for the business procured through them.

Impact Assessment

The notification will have the following impact:

- All scheduled commercial banks (excluding RRBs) will have to act as receiving offices for the subscription of Sovereign Gold Bonds through March 8 to March 14, 2016.
- The receiving offices will need to issue a holding certificate to the investors on subscription in Form C
- The receiving office need to ensure that the mode of payment cannot exceed ₹ 20,000 in cash. In case the payment is made through demand draft or cheque, the same must be in their favor

Sovereign Gold Bonds- 2016 Series-II (contd.)

- The receiving offices will have to inform the investors about the maturity of the bond one month before the maturity.
- The receiving offices will receive commission at the rate of ₹ 1 per hundred of the total subscription
- The receiving offices will need to share at least 50% of the commission so received with the agents for the business procured through them
- The receiving office is allowed to treat the investment in bonds as SLR, thus allowing them to maintain greater liquidity in cash
- The receiving office can treat the bonds as collateral for giving loans. The Loan to Value ratio will be as applicable to ordinary gold loan mandated by the RBI from time to time.

Framework for Revival and Rehabilitation of Micro, Small and Medium Enterprises (MSMEs)

RBI Circular Reference: RBI/2015-16/338
Date of Notification: March 17, 2016
Applicable Entities: All Scheduled Commercial Banks (Excluding RRBs)

Background and Objective

In India, the existing mechanism for addressing revival, rehabilitation and exit of small enterprises is very weak. The most recent Doing Business (DB) Report, a joint project of the World Bank and the International Finance Corporation, ranks India 137 out of the 189 economies for resolving insolvencies. It notes that resolving insolvency takes 4.3 years on average and costs 9.0% of the debtor's estate, with the most likely outcome being that the company will be sold as piecemeal sale.

The Ministry of Micro & small enterprises, Government of India, vide their Gazette Notification dated May 29, 2015 had notified a 'Framework for Revival and Rehabilitation of Micro, Small and Medium Enterprises'. This guideline titled 'Framework for Revival and Rehabilitation of Micro, Small and Medium Enterprises (MSMEs)' is introduced, in consultation with the Government of India, Ministry of MSME, in order to make it compatible with the existing regulatory guidelines on 'Income Recognition, Asset Classification and provisioning pertaining to Advances' issued to banks by RBI.

The revised framework would enable re-organization and rehabilitation of MSME units, balancing the interests of creditors and lenders.

Key directives issued by RBI

Eligibility: The provisions made in this framework shall be applicable to MSMEs having loan limits up to Rs.25 crore, including accounts under consortium or multiple banking arrangement (MBA).

Identification of incipient stress: The guideline specifies the identification procedures of stress in case of banks, creditors and the borrower enterprise

Committees for Stressed MSMEs: The regulation highlights the need for banks to form committees for handling matters pertaining to the stressed MSMEs including rules around their formation, composition, functioning, roles etc.

Application to the Committee for a Corrective Action Plan (CAP): The regulation specifies that any lender on identifying an MSME account as SMA-2 or suitable for consideration under the Framework or on receipt of an application from the stressed enterprise, shall forward the cases having aggregate loan limits above Rs.10 lakh to the Committee for immediate convening of meeting and deciding on a CAP. Stressed enterprises having aggregate loan limits above Rs.10 lakh can also directly file an application for CAP to the Committee or to the largest lender for onward submission under advice to all its lenders. The International Banks' Association (IBA) may prescribe suitable application formats for aggregate loans upto and above 10 lakh.

The regulation also specifies timelines, rules and actions pertaining to the application received by the Committee

Corrective Action Plan by the Committee: The regulation specifies the options that the Committee has under CAP. It also specifies rules around conducting a Techno-Economic viability assessment by the Committee for accounts considered for CAP.

Timelines: Detailed time-lines are given for carrying out various activities under the Framework.

Restructuring by the Committee: The rules around eligibility and viability for restructuring cases has been specified

Review: The review procedure including timeline for initiation of review, grounds for review and the timeline for acting upon such a request is specified in the guideline.

Framework for Revival and Rehabilitation of Micro, Small and Medium Enterprises (MSMEs) (contd.)

Impact Assessment

The regulation will have the following impact on the banks:

- All banks need to set up one or more Committees for distressed MSMEs which avail credit facilities from the banks. The Committees will have such function, roles and responsibilities as highlighted in the regulation.
- Banks, with the approval of their boards will need to frame a policy based on the instructions specified in the regulation, on the composition of the Committee to be formed, the terms of appointment of its members, manner of filling vacancies and the procedure to be followed in the discharge of the Committee's functions The Board approved policy to operationalize the framework will need to be put up by the banks not later that June 30th 2016.
- Banks will need to identify incipient stress in case of a loan account of a MSME before the same turns into a NPA by creation of three sub categories under Special Mention Account (SMA) category based on the rules defined in the circular. The appropriate stressed accounts should be forwarded by the bank to the Committee for a suitable Corrective Action Plan (CAP) based on a criteria defined in the circular

Pradhan Mantri Fasal Bima Yojana

RBI Circular Reference: RBI/2015-16/341
Date of Notification: March 17, 2016
Applicable Entities: The Chairman/Managing Director/Chief Executive Officer All Scheduled Commercial Banks (excluding Regional Rural Banks)

Background and Objective

The Hon'ble Prime Minister of India, Shri Narendra Modi had launched a brand new crop insurance scheme on January 13, 2016 called Pradhan Mantri Fasal Bima Yojana (PMFBY). The main motto of this new crop insurance scheme was to provide a more efficient insurance support to the farmers of the country and become a financial support medium to thousands of farmers. It was decided to provide low premium insurance cover to the farmers so that they can sustain even if the yield is damaged.

The highlights of this scheme are as under:

i) A uniform premium of only 2% to be paid by farmers for all Kharif crops and 1.5% for all Rabi crops. A premium of 5% in case of annual commercial and horticultural crops. Any balance premium will be paid by the Government to provide full insured amount to the farmers against crop loss on account of natural calamities.

ii) There is no upper limit on Government subsidy. Even if balance premium is 90% it will be borne by the Government.

iii) Earlier, there was a provision of capping the premium rate which resulted in low claims being paid to farmers. This capping was done to limit Government to outgo on the premium subsidy. This capping has now been removed and farmers will get claim against full sum insured without any reduction.

Key directives issued by RBI

Government of India has recently approved Pradhan Mantri Fasal Bima Yojana (PMFBY) which would replace the existing schemes of National Agricultural Insurance Scheme (NAIS) & Modified National Agricultural Insurance Scheme (MNAIS) from Kharif 2016. PMFBY would be available to the farmers at very low rates of premium which would be maximum upto 1.5% for Rabi and upto 2% for Kharif for Food crops, Pulses and Oilseeds and upto 5% for Annual Horticulture/ Commercial Crops. This scheme would provide insurance cover for all stages of the crop cycle including post-harvest risks in specified instances.

Further, Weather Based Crop Insurance Scheme (WBCIS) has also been modified and the premium payable by the farmers as also its administrative provisions and operationalization process have been brought on par with PMFBY. In addition, a Unified Package Insurance Scheme (UPIS) has also been approved for implementation on pilot basis in 45 districts of the country to cover other assets/activities like machinery, life, accident, house, student-safety and crops etc. of farmers

Banks have a vital role to play in increasing the coverage under the scheme. As the scheme is compulsory for loanee farmers availing Seasonal Agricultural Operational (SAO) Loans/Kisan Credit Card (KCC) holders for the notified crops in notified areas, 100% coverage of loanee farmers in notified areas growing notified crops is required to be done by all concerned bank branches. This scheme is voluntary for non-loanee farmers, but there is a prerequisite in the scheme that they should have an account to be eligible for coverage. Under the Pradhan Mantri Jan Dhan Yojana (PMJDY), most of these poorest of the poor farmers have got their bank accounts opened and the banks have to focus on supporting these farmers in getting crop insurance including guiding them through the entire process. The detailed role and responsibilities of the Rural Financial Institutions including Commercial Banks and Regional Rural Banks have been defined in the Operational Guidelines of the Scheme including specified seasonality discipline for acceptance of proposals/premium, remittance of premium along with consolidated proposals to the concerned Implementing Insurance Companies, uploading of requisite details of insured farmers on Crop Insurance Portal and credit of claim amount in the accounts of the farmers for effective implementation of the schemes.

Pradhan Mantri Fasal Bima Yojana (contd.)

Another issue which needs to be addressed is the lack of compilation of land details and crop sown details of the loanee farmers availing crop loan by the Banks which has resulted in non-availability of requisite data on real time basis for monitoring and planning purposes. This scheme is intricately linked to crop loans taken by farmers through KCC and de-duplication of these accounts and stopping multiple insurance coverage against such accounts is equally important. In the present system banks are using different formats for capturing requisite data of land and crop details of farmers which is not accessible on the system for all concerned agencies for cross verification. Developing an integrated IT Platform for capturing all relevant data by concerned agencies including financial Institutions, insurance companies, State Governments and Government of India and its access to all concerned along with seeding of Aadhar Number of the farmers will go a long way in providing real time data with no scope of duplication & shall also speed up payment of claims to the affected farmers. A Crop Insurance Portal www.agri-insurance.gov.in has been operationalized by GOI for effective administration of the Crop Insurance Program but its integration with banks is essential for capturing the requisite data/information on real time basis. In view of the above Government of India has proposed to initiate development of an integrated platform on a pilot basis for providing real time information at one place for use by all agencies.

Impact Assessment

- Banks will now play a vital role in increasing the coverage of the Pradhan Mantri Fasal Bima Yojana (PMFBY) by ensuring 100 per cent coverage of loanee farmers.
- Whereas the scheme is compulsory for loanee farmers availing Seasonal Agricultural Operational (SAO) Loans or Kisan Credit Card (KCC), it is voluntary for non-loanee farmers and banks thus will have to focus on supporting peasants, who have opened an account under the Jan Dhan scheme, in getting crop insurance, including guiding them through the entire process.
- Additionally, banks will now need to compile the land and crop details of the loanee farmers availing the loan from the bank so as to ensure its effective monitoring and planning.
- Banks also need to ensure that there are no de-duplication of accounts and that multiple insurance coverage against such accounts are not taken.

Liquidity Risk Management & Basel III Framework on Liquidity Standards – Liquidity Coverage Ratio (LCR), Liquidity Risk Monitoring Tools and LCR Disclosure Standards

RBI Circular Reference: RBI/2015-16/344
Date of Notification: March 23, 2016
Applicable Entities: All Scheduled Commercial Banks

Background and Objective

The RBI has released amendments for the treatment of the following items with respect to computation of Liquidity Coverage Ratio (LCR), Liquidity Risk Monitoring Tools and LCR Disclosure Standards:

- Formats for Statement of Structural Liquidity
- Formats for Statement of Short Term Dynamic Liquidity
- Level 2B HQLAs
- Retail Deposits
- Contingent Funding Liabilities
- Foreign Currency HQLAs
- Treatment of a Pool of Collateral towards Stock of HQLAs
- Outflow factor for Deposits against which a loan has been allowed
- Outflow factor for Funding from other legal entity customers

Key directives issued by RBI

RBI has made amendments to the provisions of the following guidelines based on the developments since the issue of the circular, feedback received from the stakeholders and experience gained:

- DBOD.BP.No.56/21.04.098/2012-13 dated November 7, 2012 on "Liquidity Risk Management by Banks."
- DBOD.BP.BC.No.120/21.04.098/2013-14 dated June 9, 2014 and DBR.BP.BC.No.52/21.04.098/2014-15 dated November 28, 2014 on "Basel III Framework on Liquidity Standards – Liquidity Coverage Ratio (LCR), Liquidity Risk Monitoring Tools and LCR Disclosure Standards."
- DBR.No.BP.BC.80/21.06.201/2014-15 dated March 31, 2015 on "Prudential Guidelines on Capital Adequacy and Liquidity Standards – Amendments."

Please refer to the circular for details on the amendments.

Impact Assessment

- Banks will have to align the time buckets in its SLS statement with the LCR monitoring requirement. Effective 1st February 2016 onwards, Banks will have the following changes in the maturity buckets i.e.. (8-14 days, 15-30 days, 31 days and upto 2 months & more than 2 months and upto 3 months) for preparing its Statement of Structural Liquidity for applicable operations
- Banks will have to align its time buckets for preparing its Statement of Short-term Dynamic Liquidity in a manner similar to the one mentioned above
- In addition to the assets prescribed under Level 2B, with effect from 1st February 2016, Corporate debt securities (including commercial paper) can also be reckoned as Level 2B HQLAs, subject to a 50% haircut and the securities having usual fundamental and market related characteristics for HQLAs and meeting conditions mentioned in the amendment guideline
- The Banks will need to realign the meaning of retail deposits in line with the stated amendment.
- The Outflow factor for contingent funding liabilities like Guarantees, Letters of Credit and Trade Finance as prescribed in Appendix I - Basel III Liquidity Returns has been reduced from 5% to 3%

Liquidity Risk Management & Basel III Framework on Liquidity Standards – Liquidity Coverage Ratio (LCR), Liquidity Risk Monitoring Tools and LCR Disclosure Standards (contd.)

- Branches of foreign banks are exempted from submitting Statement of LCR by significant as they do not hold any foreign currency in HQLAs
- The notification gives an explanation of the treatment of a pool of collaterals towards stocks of HQLAs which the Banks need to take into account
- Principles for determining Cash flow under SFTs secured with a Pool of Collateral are not prescribed in detail in the current amendment. Banks will have to prepare its cash flows keeping in mind the said principles
- Banks generally allow loans against deposits of customers. If a deposit is contractually pledged to a bank as collateral to secure a credit facility or loan granted by the bank that will not mature or be settled in the next 30 days, then banks may exclude such pledged deposit from the LCR calculation, i.e.. outflows, only if the conditions mentioned in the amendment are met
- Banks may not include deposits from other legal entities (as mentioned in the circular) under the same category of Small Business Customers provided the total aggregate funding raised from the customer is upto Rs. 5 crore (on an aggregate basis where applicable). Deposits from such entities not meeting the above criteria would continue to attract an out flow factor of 100%.

External Commercial Borrowings (ECB) – Revised framework

RBI Circular Reference: RBI/2015-16/349
Date of Notification: March 30, 2016
Applicable Entities: All Category-I Authorized Dealer Banks

Background and Objective

RBI in its guideline on External Commercial Borrowings enshrined in 'Master Direction No.5 dated January 1, 2016 on External Commercial Borrowings, Trade Credit, Borrowing and Lending in Foreign Currency by Authorized Dealers and Persons other than Authorized Dealers' had prescribed the provisions around the 'Form', 'Available routes of raising ECB', 'Parameters for ECBs', 'Maturity prescription', 'Eligible Borrowers' and 'Hedging requirements'. With renewed focus on promoting foreign investment in the Infrastructure industry, RBI has relaxed certain restrictions thus allowing access to companies and NBFCs.

Key directives issued by RBI

1. Taking into account prevailing external funding sources, particularly for long term lending and the critical needs of infrastructure sector of the country, the extant ECB guidelines have been reviewed in consultation with the Government of India. Accordingly, it has been decided to make the following changes in the ECB framework:

   i. Companies in infrastructure sector, Non-Banking Financial Companies -Infrastructure Finance Companies (NBFC-IFCs), NBFCs-Asset Finance Companies (NBFC-AFCs), Holding Companies and Core Investment Companies (CICs) will also be eligible to raise ECB under Track I of the framework with minimum average maturity period of 5 years, subject to 100 per cent hedging.

   ii. For the purpose of ECB, "Exploration, Mining and Refinery" sectors which are not included in the Harmonized list of infrastructure sector but were eligible to take ECB under the previous ECB framework (c.f. A.P. (DIR Series) Circular No. 48 dated September 18, 2013) will be deemed as in the infrastructure sector, and can access ECB as applicable to infrastructure sector under (i) above.

   iii. Companies in infrastructure sector shall utilize the ECB proceeds raised under Track I for the end uses permitted for this Track. NBFCs-IFCs and NBFCs-AFCs will, however, be allowed to raise ECB only for financing infrastructure.

   iv. Holding Companies and CICs shall use ECB proceeds only for on-lending to infrastructure Special Purpose Vehicles (SPVs).

   v. The individual limit of borrowing under the automatic route for aforesaid companies shall be as applicable to the companies in the infrastructure sector (currently USD 750 million).

   vi. Companies in infrastructure sector, Holding Companies and CICs will continue to have the facility of raising ECB under Track II of the ECB framework subject to the conditionalities prescribed thereof.

2. The companies added under Track I should have a Board approved risk management policy. Further, the designated AD Category-I bank shall verify that 100 per cent hedging requirement is complied with during the currency of ECB and report the position to RBI through ECB 2 returns.

3. On the ECB framework announced vide aforesaid Circular dated November 30, 2015, it is further clarified that:

   i. The designated AD Category-I banks may, under the powers delegated to them, allow refinancing of ECBs raised under the previous ECB framework, provided the refinancing is at lower all-in-cost, the borrower is eligible to raise ECB under the extant ECB framework and residual maturity is not reduced (i.e.. it is either maintained or elongated).

   ii. ECB framework is not applicable in respect of the investment in Non-convertible Debentures (NCDs) in India made by Registered Foreign Portfolio Investors (RFPIs).

External Commercial Borrowings (ECB) – Revised framework (contd.)

iii. Minimum average maturity of Foreign Currency Convertible Bonds (FCCBs)/ Foreign Currency Exchangeable Bonds (FCEBs) is 5 years irrespective of the amount of borrowing. Further, the call and put option, if any, for FCCBs shall not be exercisable prior to 5 years.

iv. Only those NBFCs which are coming under the regulatory purview of the Reserve Bank are permitted to raise ECB. Further, under Track III, the NBFCs may raise ECBs for on-lending for any activities including infrastructure as permitted by the concerned regulatory department of RBI.

v. The provisions regarding delegation of powers to designated AD Category-I banks is not applicable to FCCBs/FCEBs.

vi. In the forms of ECB, the term “Bank loans” shall be read as “loans” as foreign equity holders / institutions other than banks, also provide ECB as recognized lenders.

4. All other aspects of the ECB policy shall remain unchanged. AD Category - I banks may bring the contents of this circular to the notice of their constituents and customers.

5. Master Direction No. 5 dated January 01, 2016 is being updated to reflect the changes.

Impact Assessment

Key implications of the above circular on the banks include:

- Infrastructure Companies previously only eligible under ‘Track II’ prescribed maturities, now have been permitted to raise ECBs with MAP of 5 years subject to 100% hedging of the same. Thus, when Infra companies offer such ECBs as underlying for hedging purposes, banks may need to ensure that not just a portion, but the entire ECB amount has been hedged. Further, since the ECB must be completely hedged, the deal tenor must not be less than 5 years for such hedges. It has also been clarified that where the ECB has been hedged under an Options contract, such options are not exercisable prior to the completion of 5 years. In other words, only European Options may be issued against such ECBs provided as underlying. Also, early delivery and premature termination of such deals prior to completion of 5 years from the start of the ECB must not be permitted by banks.
- The companies raising funds under Track I are required to utilize its proceeds in the manner prescribed under Track I. Thus, if the same has been hedged with banks, monitoring the use of such proceeds on a timely basis may be required by the Operations Department. Further, an exception has been made to NBFCs-IFCs and NBFCs-AFCs who are permitted to utilize the proceeds for financing Infrastructure.
- Since the “Exploration, Mining and Refinery” sectors not included in Harmonized list have also been extended to the ECB facilities, banks may need to make suitable changes in categorization of the sector to ensure that the subsequent benefits are also passed on to them.
- Borrowing limits for such Infrastructure Companies via ECBs shall be restricted to the prescribed limits and therefore a cap on the same may need to be monitored by banks
- Banks are required to ensure that the Track I companies have a Board Approved Risk Management Policy in place while applying for such ECBs. Thus, while processing such deals for hedging purposes, the operations teams may verify the same and ensure that 100% of the ECB is being hedged. AD-I banks are also required to report the position to RBI through ECB 2 returns.
- The ECB benefits and provisions are not extended to investment in Non-convertible Debentures (NCDs) in India made by Registered Foreign Portfolio Investors (RFPIs). Thus banks are required to categorize such entities accordingly while granting the ECB as well as while hedging the same

Import of Rough, Cut and Polished Diamonds

RBI Circular Reference: RBI/2015-16/351
Date of Notification: March 31, 2016
Applicable Entities: All Authorized Dealer Category – I Banks

Background and Objective

In order to tackle a multitude of issues affecting the diamond industry in India, a delegation of diamond traders and representatives of Gems and Jewellery Export Promotion Council (GJEPC) had met with the Hon'ble Union Minister of Finance, Government of India to discuss these issues and suggest appropriate steps to solve them. Taking these issues into account and with an aim to promote and strengthen the diamond industry, RBI issued this guideline to ease the operational difficulties faced by the importers of rough, cut and polished diamonds

The notification amended by the RBI would help the diamond industry to cope with delays arising from bottlenecks caused by external factors and would in turn facilitate trading relations with other countries.

Key directives issued by RBI

1. To ease the operational difficulties faced by the importers, it has been decided, in consultation with the Government of India, to delegate the powers for permitting such clean credit for a period exceeding 180 days from the date of shipment to the AD banks, subject to the following conditions:

   i. AD banks being satisfied of the genuineness of the reason and bonafide of the transaction and also that no payment of interest is involved for the additional period

   ii. The reasons for such extension are due to financial difficulties and/or quality disputes, as in the case of normal imports (for which such extension of time period for delayed payments has already been delegated to the AD banks)

   iii. The importer requesting for such extension is not under investigation/no investigation is pending against the importer

   iv. The importer seeking extension is not a frequent offender. Since there is a possibility that the importer may have dealings with more than one AD bank, the AD bank allowing extension may devise a mechanism based on their commercial judgement, to ensure this.

   v. AD banks may allow such extension of time up to a maximum period of 180 days beyond the prescribed period/due date, beyond which they may refer the cases to respective Regional Office of the Reserve Bank

2. AD banks may submit a half yearly report of such extensions allowed customer-wise, to the respective Regional Office of the Reserve Bank.

3. The revised directions will come into force with immediate effect.

4. AD Category - I banks should ensure that due diligence is undertaken and Know-Your-Customer (KYC) Norms and Anti-Money Laundering (AML) Standards, issued by the Reserve Bank are adhered to while undertaking the import transactions. Further, any large or abnormal increase in the volume of business should be closely examined to ensure that the transactions are bonafide. All other instructions relating to import of Rough, Cut and Polished Diamonds shall continue.

Impact Assessment

As part of the notification, RBI asked that banks meet certain conditions, including the following:

- Banks are permitted to grant extension of clean credit to the importers for greater than 180 days subject to such conditions as specified in the notification including extension being granted on the grounds of financial difficulties and quality disputes. Moreover, the importer should not be under

Import of Rough, Cut and Polished Diamonds (contd.)

- Investigation and late payments should not be frequent occurrence
- The banks are to report such cases of extension of clean credit to the RBI on a half yearly basis
- Banks may need to conduct appropriate due diligence procedures specifically in those cases where there has been an unusual or large increase in the volume of business to ensure that the same is bonafide.
- The banks' KYC/AML policy standards and procedures pertaining to import transactions may need to be updated to make it in line with the KYC/AML standards as set forth by the RBI.

Other Key Guidelines issued by RBI in April 2016

S. No	Guidelines Reference	Date of Issue	Particulars	Impact
1	RBI/2015-2016/356	April 05, 2016	Marginal Standing Facility	RBI has decided to reduce the Marginal Standing Facility (MSF) rate by 75 basis points from 7.75% to 7.00%. The MSF facility allows banks to borrow additional funds from the RBI over and above the Repo limits by pledging securities from their SLR quota (which is not allowed while borrowing under Repo) at a reduced cost thus infusing liquidity in the system. This reduction in the rate is beneficial for the Banks as they can now borrow from the RBI at a lesser rate.
2	RBI/2015-2016/357	April 05, 2016	Liquidity Adjustment Facility – Repo and Reverse Repo Rates	RBI has decided to reduce the Repo rate under the Liquidity Adjustment Facility (LAF) by 25 basis points from 6.75% to 6.50%. Further the Reverse Repo rate under the LAF has been increased by 25 basis points from 5.75% to 6.00%. Reduction in Repo rate under the LAF adjustment allows banks to borrow money from the RBI at a reduced cost of funds against collateralized G-Secs thus infusing liquidity into the banking system
3	RBI/2015-2016/358	April 05, 2016	Change in Bank Rate	RBI has decided to reduce the Bank rate from 7.75 percent to 7.0 percent effective from April 05, 2016. Accordingly, all penal interest rates that were linked to the Bank rate have also been revised. Banks may now need to consider this revised bank rate when deciding upon its deposit and lending rates.
4	RBI/2015-2016/359	April 05, 2016	Section 42(1) of the Reserve Bank of India Act, 1934 - Change in Daily Minimum Cash Reserve Maintenance Requirement	RBI has decided to reduce the minimum daily maintenance of the Cash Reserve Ratio from 95 per cent of the requirement to 90 per cent effective from the fortnight beginning April 16, 2016. Banks may now maintain a lesser amount of reserves with the RBI and thus have greater availability of funds which can be used for other purposes.

S. No	Guidelines Reference	Date of Issue	Particulars	Impact
5	RBI/2015-2016/360	April 07, 2016	Deendayal Antyodaya Yojana (DAY)-National Urban Livelihoods Mission	RBI through this notification has enhanced the scope of the National Urban Livelihoods Mission (NULM) and has renamed the same as *"Deendayal Antyodaya Yojana (DAY)-National Urban Livelihoods Mission*. Several amendments have been made around implementation of the scheme, establishment of City Livelihood Centres (CLC) and Mission Management Units (MMU) etc. Banks thus may need to modify its policies and procedures to make it in line with these amendments while dealing with components under this scheme.
6	RBI/2015-2016/362	April 07, 2016	Revision of interest rates for Small Savings Schemes	The Government of India has revised the rate of interest on various small savings scheme for the first quarter of the financial year 2016-2017. Banks may thus need to ensure that these revised rates are duly communicated to its various branches dealing in Government small schemes. Banks may also need to ensure that the rates are communicated to its customers by displaying the same on the notice boards at its branches.
7	RBI/2015-2016/369	April 13, 2016	Security / Inspection needs and Movement of Treasure	▪ All the banks having currency chests may need to ensure conduct of fire audits on a bi annual basis by officials from Fire department with respect to the adequacy of the smoke detection system, fire alarm system and fire fighting system employed by them. ▪ The banks may also ensure that the working condition of the Hotline and other security related gadgets, viz. access control, CCTV, etc. are checked once in a fortnight by the CC officials.
8	RBI/2015-2016/371	April 13, 2016	Acceptance of deposits by Indian companies from a person resident outside India for nomination as Director	The RBI through this notification aims to clarify an ambiguity with respect to whether an approval from the RBI is required in a case where a deposit is received from a person resident outside India in terms of the provision of Section 160 of the Companies Act, 2013. The RBI clarifies that such an approval is not required since the deposit in this case is a current account transaction. Banks must therefore keep this clarification in mind when assessing the directorship structure of a Company.

S.No	Guidelines Reference	Date of Issue	Particulars	Impact
9	RBI/2015-2016/376	April 18, 2016	Provisioning pertaining to Fraud Accounts	▪ Banks are now allowed to adjust financial collateral eligible under Basel III Capital Regulations - Capital Charge for Credit Risk (Standardised Approach), if any, available with them with regard to the accounts declared as fraud account. ▪ Additionally, where the bank chooses to provide for the fraud over two to four quarters and this results in the full provisioning being made in more than one financial year, banks will have to modify their credit policy/Accounting policy to give effect to the norms as per this circular with respect to provisioning of accounts suspected of frauds and the disclosures required as per the circular
10	RBI/2015-2016/377	April 21, 2016	Foreign Investment in units issued by Real Estate Investment Trusts, Infrastructure Investment Trusts and Alternative Investment Funds governed by SEBI regulations	▪ Banks may provide the necessary instructions and communications pertaining to this regulation to it's branches, officials, customers etc.
11	RBI/2015-2016/378	April 21, 2016	Publicity in the bank branches cautioning public against placing deposits in dubious schemes	Banks may, in their own and consumers' interest, design and display relevant posters, pamphlets, notices, flyers etc. containing such messages as recommended by the RBI to spread awareness about dubious schemes and in promoting financial literacy and awareness among the general public about safe and secured investments.. These measures will, in the long term, further help the banks and the financial markets to increase their deposit base, as the money which was being misappropriated by the fraudsters would enter the banking system.
12	RBI/2015-2016/383	April 28, 2016	Compliance with Jilani Committee Recommendations	The RBI has dispensed with the requirement of banks to submit the Jilani Committee recommendations to the Audit Committee of the Board. Banks are however advised to ensure that: ▪ Compliance to these recommendations are complete and sustained ▪ These recommendations are appropriately factored in the internal inspection/audit processes of banks and duly documented in their manual/ instructions, etc.

S.No	Guidelines Reference	Date of Issue	Particulars	Impact
13	RBI/2015-2016/386	April 28, 2016	Opening and Maintenance of Rupee / Foreign Currency Vostro Accounts of Non-Resident Exchange Houses: Rupee Drawing Arrangement	RBI has modified requirements pertaining to collateral under the Speed Remittance Procedure. Accordingly, the AD banks are now free to determine the collateral requirement, if any, based on factors, such as, whether the remittances are pre-funded, the track record of the Exchange House, whether the remittances are effected on gross (real-time) or net (file transfer) basis, etc., and may frame their own policy in this regard.
14	RBI/2015-2016/387	April 28, 2016	F-TRAC – Counterparty Confirmation	RBI through this notification has decided to allow entities reporting trades on F-TRAC to enter into multilateral agreement drafted by the Fixed Income Money Market and Derivatives Association ("FIMMDA") for waiving physical exchange of confirmation for the deals in Commercial Papers (CPs), Certificates of Deposit (CDs), Non-Convertible Debentures (NCDs) of original maturity up to one year and repo trades in corporate debt securities, CPs and CDs.

Other Key Guidelines issued by RBI in March 2016

S. No	Guidelines Reference	Date of Issue	Particulars	Impact
1	RBI/2015-2016/332	March 3, 2016	Grant of EDF Waiver for Export of Goods Free of Cost	RBI has notified that status holders shall be entitled to export freely exportable items on free of cost basis for export promotion subject to an annual limit of Rs. 10 lakh or 2% of average annual export realization during preceding three licensing years whichever is lower. The banks therefore may consider requests from such status holder exporters for grant of Export Declaration Form (EDF) waiver, for export of goods free of cost based on this norm.
2	RBI/2015-2016/337	March 17, 2016	NEFT – Customer Service and Charges – Adherence to Procedural Guidelines and Circulars	The notification dispenses with the practice of quarterly submission of a report by the banks to the RBI highlighting details related to the NEFT transactions done by their walk-in customers. The RBI has however advised the banks to maintain such data at their end in case any information/reports are required by the RBI in the future for such purpose as deemed necessary by them.
3	RBI/2015-2016/346	March 23, 2016	Diamond Dollar Account (DDA) – Reporting Mechanism	▪ RBI has dispensed with the requirement of submission of quarterly reports by the bank containing the details of the names and address of the firm/company in whose name the Diamond Dollar Account is opened, along with the date of opening / closing of the account. ▪ Banks are however advised by the RBI to maintain a record of the DDA accounts in their own database so that the same can be made available whenever called upon by the RBI
4	RBI/2015-2016/348	March 29, 2016	Investment by Foreign Portfolio Investors (FPI) in Government Securities	▪ RBI has increased the investment limit of foreign portfolio investors (FPIs) in central government securities and state development loans. The increase is done in two tranches i.e. from April 4, 2016 and July 5, 2016 as specified in the notification. ▪ Further, any limit remaining unutilized by the long-term investors at the end of a half-year would be made available as additional limit to the investors in the open category for the following half-year. ▪ Investments are restricted to securities with a minimum residual maturity of three years.

S. No	Guidelines Reference	Date of Issue	Particulars	Impact
5	RBI/2015-2016/350	March 31, 2016	Foreign Direct Investment (FDI) in India – Review of FDI policy – Insurance sector	The Government has permitted 49 per cent FDI through automatic approval route in the insurance sector with a view to attract greater overseas inflows in the insurance industry. With the insurance industry expected to grow in the coming years, it is imperative for the banks to revise its strategy and place increased focus on tapping the insurance industry sector.
6	RBI/2015-2016/352	March 31, 2016	Risk Based Supervision – Follow up of Risk Management Systems in Banks	As per the notification, banks are not required to submit the single report on the 'progress in implementation of Risk Management System/ALM, Risk Based Supervision and Risk Based Internal Audit', on quarterly basis to the Reserve Bank with effect from the quarter ending March, 2016.
7	RBI/2015-2016/353	March 31, 2016	Gold Monetization Scheme, 2015	The notification amends the provisions pertaining to Medium and Long Term Government Deposit (MLTGD) as defined in the Gold Monetization Scheme, 2015 issued on October 22, 2015. The circular highlights the following: ▪ Customer redemption in case of such deposits can be done either in the form Indian Rupee equivalent of the value of the gold deposited or in gold itself ▪ In case redemption is in the form of gold, an administrative charge of 0.2% of the notional redemption in terms of INR needs to be collected by the banks ▪ Interest accrued on such deposits shall be calculated with reference to the value of gold in INR terms at the time of deposit and will be paid only in the form of cash regardless of the redemption option chosen by the customer. In light of the above notification, banks will need to suitably amend their policies, procedures and schedule of charges in relation to MLTGD deposits.

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