प्रेस प्रकाशनी PRESS RELEASE

भारतीय रिज़र्व बैंक
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April 04, 2019

Statement on Developmental and Regulatory Policies

This Statement sets out various developmental and regulatory policy measures for strengthening regulation and supervision; broadening and deepening of the financial markets; improving payment and settlement systems; and, promoting financial inclusion.

I. Regulation and Supervision

1. Liquidity Coverage Ratio (LCR), Liquidity Risk Monitoring Tools and LCR Disclosure Standards

Presently, the assets allowed as Level 1 High Quality Liquid Assets (HQLAs) for the purpose of computing the LCR of banks, *inter alia*, include (a) Government securities in excess of the minimum SLR requirement, and (b) within the mandatory SLR requirement, Government securities to the extent allowed by RBI under (i) Marginal Standing Facility (MSF) [presently 2 per cent of the bank's NDTL] and (ii) Facility to Avail Liquidity for Liquidity Coverage Ratio (FALLCR) [presently 13 per cent of the bank's NDTL].

With a view to move further towards harmonisation of the effective liquidity requirements of banks with the LCR, it has been decided to permit banks to reckon an additional 2.0 percent of Government securities within the mandatory SLR requirement, as FALLCR for the purpose of computing LCR, in a phased manner, as under:

Effective Date	FALLCR (per cent of NDTL)	Total HQLA carve out from SLR (per cent of NDTL)
April 4, 2019	13.50	15.50
August 1, 2019	14.00	16.00
December 1, 2019	14.50	16.50
April 1, 2020	15.00	17.00

2. Committee on the Development of Housing Finance Securitisation Market

Globally, residential and commercial mortgages are supported by well-lubricated securitisation markets whereby mortgage originators package portfolios of mortgages and resell them in capital markets as mortgage-backed securities or covered bonds. Well-functioning securitisation markets can enable better management of credit and liquidity risks on the balance-sheets of banks as well as non-bank mortgage originators and, in turn, help lower the costs of mortgage finance in the economy. In India, in contrast, the securitisation market is dominated by direct assignment and purchase of loan receivables of non-banks (including Housing Finance Companies) by banks.

In view of the benefits brought in by the standardisation of asset securitisation practices as also their role in enabling superior management of credit and liquidity risks as alluded to before, the Reserve Bank has decided to constitute a Committee that will assess the state of housing finance securitisation markets in India; study the best international practices as well as lessons learnt from the global financial crisis; and propose measures to further develop these markets in India by identifying critical steps required such as, *inter alia*, definition of conforming mortgages, mortgage documentation standards, digital registry for ease of due diligence and verification by investors, avenues for trading in securitised assets, etc.

The composition and terms of reference of the Committee will be announced shortly. The Report of the Committee will be due by the end of August, 2019.

3. Task Force on the Development of Secondary Market for Corporate Loans

The secondary market for loans can be an important mechanism for credit intermediaries to manage credit risk and liquidity risk on their balance-sheets, especially for distressed assets. Loan sales can facilitate risk transfer across intermediaries that originate credit (such as banks and non-banking financial companies) as well as from credit originators to intermediaries such as Asset Restructuring Companies (ARCs), Private Equity (PE) funds, Alternative Investment Funds (AIFs), etc. Presently, the secondary market for corporate loans in India is dominated by transactions of banks in non-performing assets and is constrained by sparse information on pricing and recovery rates.

Recognising the benefits of an *active* secondary market in loans, the Reserve Bank will set up a Task Force to study the relevant aspects including best international practices and propose measures for developing a thriving secondary market for corporate loans in India. The measures explored would include, *inter alia*, loan contract standards, digital loan contract registry, ease of due diligence and verification by potential loan buyers, online platform for loan sales/ auctions, and accessible archive of historical market data on bids and sale prices for loans.

The composition and terms of reference of the Task Force will be announced shortly. The Report of the Task Force will be due by end of August, 2019.

4. Issue of Instructions on an External Benchmark

As announced in the 'Statement on Developmental and Regulatory Policies' of December 05, 2018, it was proposed that all new floating rate personal or retail loans (housing, auto, etc.) and floating rate loans to Micro and Small Enterprises extended by banks from April 1, 2019 shall be benchmarked to the external benchmarks, *viz.*, the RBI Repo Rate or any other benchmark market interest rate published by the Financial Benchmark India Private Ltd. (FBIL).

Taking into account the feedback received during discussions held with stakeholders on issues such as (i) management of interest rate risk by banks from fixed interest rate linked liabilities against floating interest rate linked assets and the related difficulties, and (ii) the lead time required for IT system upgradation, it has been decided to hold further consultations with stakeholders and work out an effective mechanism for transmission of rates.

5. Countercyclical Capital Buffer

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

II. Financial Markets

6. Permitting G-sec trading through International Central Securities Depositories (ICSDs)

Pursuant to the announcement made in the Union Budget for 2014-15 on "allowing international settlement of Indian debt securities", the Reserve Bank, in consultation with the Government, had initiated discussions with ICSDs to permit their non-resident clients to transact in Government securities. It is now proposed to commence the process of implementation of international settlement of Government securities by ICSDs. This would open up a new channel for non-residents to undertake Government securities transactions. Operational details in this regard will be worked out with ICSDs in consultation with the Government and the Securities Exchange Board of India (SEBI).

7. Licensing of Non-Banking Financial Companies (NBFCs) as Authorised Dealer Category II

As per the Foreign Exchange Management Act, 1999, forex transactions are required to be made only through the authorised persons who can undertake transactions, specifically permitted to them.

With a view to improve the ease of undertaking forex transactions by increasing the last-mile touch points of regulated entities to sell foreign exchange for non-trade current account transactions, it has been decided that non-deposit taking systemically important Non-Banking Financial Companies (NBFCs-NDSI) in the category of Investment & Credit Companies (ICCs) will be made eligible to apply for grant of Authorised Dealer Category II licence. Detailed instructions in this regard shall be issued by the end of April 2019.

III. Payment and Settlement Systems

8. Benchmarking India's Payment Systems

Efficient payment systems reduce the cost of exchanging goods and services and are indispensable to the functioning of financial markets. The past decade has witnessed several innovations in retail payments across the globe. Benchmarking India's Payments Systems is necessary to gauge India's progress against payment systems and instruments in major countries and give further impetus to the planned efforts for deepening the digitisation of payments. A report containing the findings of such an exercise will be placed on the RBI website by the end of May 2019.

9. Framework for Harmonizing Turn Around Time for the Resolution of Customer Complaints and Compensation

The Reserve Bank has directed various authorised payment systems to put in place appropriate customer grievance redressal mechanism. Further, for some payment systems the Reserve Bank has issued guidelines prescribing compensation to be paid to customers for delay in resolving failed transactions. It is, however, observed that the time taken for resolving customer complaint varies across payment systems. In order to have prompt and efficient customer service in all the electronic payment systems, it is necessary to harmonise the Turn Around Time (TAT) of resolution of customer complaints and chargebacks, and to have a compensation framework in place for the benefit of customers. The Reserve Bank proposes to put in place a framework on TAT for resolution of customer complaints and compensation framework across all authorised payment systems by the end of June 2019.

IV. Financial Inclusion

10. Convergence of Priority Sector Lending (PSL) guidelines for housing loans between Scheduled Commercial Banks (SCBs) and Regional Rural Banks (RRBs) & Small Finance Banks (SFBs)

The housing loan limits for eligibility under Priority Sector Lending were revised during June 2018 for Scheduled Commercial Banks (excluding Regional Rural Banks and Small Finance Banks). It has been decided to extend the same regulation to the Regional Rural Banks and Small Finance Banks. This is aimed to bring these banks at a level-playing field with other scheduled commercial banks. A circular in this regard shall be issued by the end of April 2019.

11. Extension of NBFC Ombudsman Scheme to cover Non-Deposit taking Non-Banking Financial Companies (NBFCs)

As announced in the 'Statement on Developmental and Regulatory Policies' of February 7, 2018, the Ombudsman Scheme for handling grievances of customers of NBFCs was introduced by the Reserve Bank w.e.f. February 23, 2018. To begin with, the Scheme was implemented for the customers of deposit taking NBFCs registered with the Reserve Bank. As stated in the policy, the operation of the Scheme was reviewed and it has now been decided to extend its coverage to those non-deposit taking NBFCs having customer interface and asset size of ₹100 crores (₹1 billion) and above, by the end of April 2019.

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Press Release : 2018-2019/2365