



Monetary and Credit Information Review

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Monetary Policy

Fourth Bi-monthly Monetary Policy Statement, 2017-18

Resolution of the Monetary Policy Committee

The Monetary Policy Committee (MPC) of the Reserve Bank of India, at its meeting held on October 4, 2017 in Central Office, Mumbai, decided to keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 6 per cent, on the basis of an assessment of the current and evolving macroeconomic situation. Consequently, the reverse repo rate under the LAF remains at 5.75 per cent, and the marginal standing facility (MSF) rate and the Bank Rate at 6.25 per cent.

The decision of the MPC is consistent with a neutral stance of monetary policy in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.

Statement on Developmental and Regulatory Policies

Measures to Improve Monetary Policy Transmission

To improve monetary policy transmission, the Internal Study Group (Chairman: Dr Janak Raj) recommended a switchover from internal benchmarks, such as, the base rate/marginal cost of funds based lending rate (MCLR) to an external benchmark in a time-bound manner. The Group submitted its report on September 25, 2017.

The Reserve Bank on October 4, 2017, invited comments from general public and stakeholders on the Report of the Internal Study Group to Review the Working of the Marginal Cost of Funds based Lending Rate (MCLR) System. Comments on the report may be sent to the Principal Adviser, Monetary Policy Department, Reserve Bank of India, Central Office, 24th Floor, Central Office Building, Shahid Bhagat Singh Marg, Fort, Mumbai 400 001 by post or by email (helpmpd@rbi.org.in) by October 31, 2017.

Banking Regulation and Supervision

The Reserve Bank on October 4, 2017,

- Reduced the statutory liquidity ratio (SLR) by 50 basis points from 20.0 percent to 19.50 per cent of banks' net demand and time liabilities (NDTL) from the fortnight commencing October 14, 2017. The ceiling on SLR securities under 'Held to Maturity' (HTM) will also be reduced from 20.25 per cent to 19.50 per cent of banks' NDTL in a phased manner, that is, 20.00 per cent by December 31, 2017 and 19.50 per cent by March 31, 2018.

- Decided to constitute a High-level Task Force on Public Credit Registry (PCR) for India with Shri Yeshwant M. Deosthalee as its Chairman.
- Advised banks to make it mandatory for corporate borrowers having aggregate fund-based and non-fund based exposure of ₹5 crore and above from any bank, to obtain Legal Entity Identifier (LEI) registration and capture the same in the Central Repository of Information on Large Credits (CRILC).
- Eased the regulatory norms to enable all co-operative banks to open current accounts and maintain CRR with the Reserve Bank.
- Instructed banks to put in place explicit mechanisms for meeting the needs of senior citizens (such as, separate arrangement in queues, arrangement for sitting) so that they do not feel marginalised. Ombudsmen have also been advised to pay heed to complaints in this context.

Financial Markets

- Decided to put in place a framework for authorisation of electronic trading platforms (ETP) for financial market instruments regulated by the Reserve Bank.

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- Proposed a mechanism for improving the pricing outcome for the 'retail user' under which client pricing is directly determined in the market by providing customers with access to an inter-bank electronic trading platform where bid/offers from clients and authorised dealer banks can be matched anonymously and automatically. The Clearing Corporation of India Limited (CCIL) will develop access to its platform FX-CLEAR through an internet-based application.
- Permitted non-resident importers and exporters (NRI) entering into rupee invoiced trade transactions with residents to hedge their INR exposures through their centralised treasury/group entities. This is expected to facilitate internationalisation of the rupee by encouraging rupee invoicing of trade transactions while also encouraging non-residents to hedge INR risks onshore.
- Decided that (i) a short seller need not borrow securities for 'notional short sales', wherein it is required to borrow the security even when the security is held in the held-for-trading/available-for-sale/held-to-maturity portfolios of banks; and, (ii) over-the-counter (OTC) G-sec transactions by FPIs may be contracted for settlement on a T+1 or T+2 basis.
- As a part of the development of the state market borrowing programme, the following measures were proposed:
 - i) Consolidation of state government debt will be undertaken to improve liquidity in State Development Loans (SDLs) through reissuances and buybacks, so as to even out redemption pressures and elongate residual maturity.
 - ii) SDL auctions will be conducted on a weekly basis and the auction results will be announced latest by 3.00 PM on the same day.
 - iii) High frequency data relating to finances of state governments available with the Reserve Bank will be disclosed on its website.

Payment and Settlement

The Reserve Bank also rationalised the operational guidelines with a view to encourage competition and innovation, and strengthening safety and security of operations, besides improving customer grievance redressal mechanisms. In line with the Vision for Payment and Settlement Systems in the country, the revised framework would pave the way for bringing inter-operability into usage of Prepaid Payment Instruments (PPIs). Inter-operability amongst KYC compliant PPIs shall be implemented within six months of the date of issuance of the revised Master Directions.

(https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=41852)
 (https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=41855)
 (https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=41863)(https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=42056)

Linking Aadhaar to Bank Accounts is Mandatory

The Reserve Bank on October 21, 2017 clarified that, in applicable cases, linkage of Aadhaar number to bank account is mandatory under the Prevention of Money-laundering (Maintenance of Records) Second Amendment Rules 2017 published in the Official Gazette on June 1, 2017. These Rules have statutory force and, as such, banks have to implement them without awaiting further instructions.

Banking Regulation

Maintenance and Holdings of SLR

The Reserve Bank on October 4, 2017 reduced the SLR requirement of banks from 20.0 per cent of their net demand and time liabilities (NDTL) to 19.5 per cent from the fortnight commencing October 14, 2017.

As per extant instructions, banks may shift investments to/from held to maturity (HTM) with the approval of the Board of Directors once a year, and such shifting will normally be allowed at the beginning of the accounting year. In order to enable banks to shift their excess SLR securities from the HTM category to available for sale (AFS)/held for trading (HFT), it has been decided to allow such shifting of the excess securities and direct sale from HTM category. This would be in addition to the shifting permitted at the beginning of the accounting year, that is, in the month of April. Such transfer to AFS/HFT category as well as sale of securities from HTM category, to the extent required to reduce the SLR securities in HTM category in accordance with the regulatory instructions, would be excluded from the five per cent cap prescribed for value of sales and transfers of securities to/from HTM category. (<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11136&Mode=0>)

High Level Task Force on Public Credit Registry

The Reserve Bank on October 23, 2017 set up a High-level Task Force on Public Credit Registry (PCR) for India. The Task Force has been formed under the chairmanship of Shri Y. M. Deosthalee, ex-CMD, L&T Finance Holdings Limited. The terms of reference of the Task Force are:

- i) To review the current availability of information on credit in India;
- ii) To assess the gaps in India that could be filled by a comprehensive PCR;
- iii) To study the best international practices on PCR;
- iv) To determine the scope/target of the comprehensive PCR: type of information to be covered along with cut-off size of credit, if any;
- v) To decide the structure of the new information system or whether the existing systems can be strengthened/integrated to get a comprehensive PCR; and
- vi) To suggest a roadmap, including the priority areas, for developing a transparent, comprehensive and near-real-time PCR for India.

The Task Force would have its secretariat at Department of Statistics & Information Management and would submit its report within six months from the date of its constitution, that is, by April 4, 2018. (https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=42037)

The clarification was issued after some news items that appeared in a section of the media quoting a reply to a Right to Information Act application that Aadhaar number linkage with bank accounts is not mandatory. (https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=42024)

Financial Markets Regulation

Framework for Authorisation of ETPs

The Reserve Bank on October 12, 2017 released Draft Directions for authorising Electronic Trading Platforms (ETPs) for financial market instruments which are regulated by it. Comments on the draft guidelines are invited from banks, market participants and other interested parties by November 10, 2017.

Feedback on the draft directions may be forwarded to: The Chief General Manager, Reserve Bank of India, Financial Markets Regulation Department, 1st Floor, Main Building, Shahid Bhagat Singh Marg, Mumbai – 400001 or by email to fmrdfedback@rbi.org.in with subject line- 'Feedback on draft directions for Authorising ETPs'.

Background

Post the global financial crisis, trading on electronic platforms is being encouraged in several jurisdictions, driven primarily by regulatory initiatives to reform over-the-counter (OTC) derivative markets, changes in market structure and technological advancement. Electronic platforms provide several benefits in terms of transparency in pricing, processing efficiency in terms of transaction time and cost, improved risk controls and help in market surveillance by addressing market abuse and unfair trading practices. These platforms have the potential to positively impact the market structure by broadening market access, increasing competition, reducing dependency on traditional trading methods and thereby leading to better price discovery and improved market liquidity.

The Reserve Bank would put in place the framework for authorisation of ETP for financial instruments with the following broad objectives:

- i) Development of market through transparent trading, safe settlement systems and standardisation of instruments;
- ii) Promoting fair, equitable, orderly and non-discriminatory access to markets;
- iii) Prevention of market abuse and ensuring financial integrity through effective monitoring and surveillance; and
- iv) Improving dissemination of trading information and thereby reducing information asymmetry. (https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=41950)

Government and Bank Accounts

Gold Monetisation Scheme 2015

The Reserve Bank on October 17, 2017 decided that reimbursement of payments made by banks, relating to Medium and Long Term Government Deposit (MLTGD), will be made by Central Account Section (CAS), Nagpur, Reserve Bank of India (RBI).

Accordingly, banks are advised to pay immediately the interest amount already due to the depositors and to take note that, in future, payment of interest to the depositors is to be made on the due dates. After making payments, the banks may raise claim to Government through the Reserve Bank (CAS, Nagpur). (<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11149&Mode=0>)

Foreign Exchange Management

Facilities for Hedging Trade Exposures

To hedge the currency risk arising out of genuine trade transactions involving exports from and imports to India, invoiced in Indian Rupees, with AD Category I banks in India, the Reserve Bank on October 12, 2017 permitted the central treasury (of the group and being a group entity) of non-residents (Persons Residents outside India) to undertake hedges for and behalf of such non-residents with AD Category I banks in India as per the existing Model I and Model II.

The AD Category I banks can opt for either Model I or Model II as given below:

In Model I, the Non-resident exporter/importer or its central treasury (of the group and being a group entity) deals through their overseas bank (including overseas branches of AD banks in India).

In Model II, the Non-resident exporter/importer or its central treasury (of the group and being a group entity) deals directly with the AD bank in India

Background

Non-residents were permitted to hedge the currency risk arising out of INR invoiced exports from and imports to India with AD Category I banks in India. (<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11144&Mode=0>)

Currency Management

Scheme of Penalties

The Reserve Bank on October 12, 2017 issued the Master Circular on scheme of penalties for bank branches based on performance in rendering customer service to the members of public. The purpose of formulating the scheme was to ensure that all bank branches provide better customer service to members of public with regard to exchange of notes and coins, in keeping with the objectives of Clean Note Policy.

Penalties

Penalties to be imposed on banks for deficiencies in exchange of notes and coins/remittances sent to the Reserve Bank/operations of currency chests, would be as under:-

- Shortage in soiled note remittances and currency chest balances would be penalised by ₹50 per piece for notes in denomination upto ₹50 in addition to the loss;
- For notes in denomination of ₹100 and above, the penalty would be equal to the value of the denomination per piece in addition to the loss.

On both the cases, shortages of 100 pieces and above per remittance shall be debited immediately. Penalty may be levied on reaching a limit of 100 pieces in a cumulative manner.

- Penalty on account of detection of counterfeit notes by the Reserve Bank from soiled note remittance of banks and in currency chest balances would be levied as prescribed.

- For mutilated notes detected in soiled note remittances and currency chest balances, the penalty would be ₹50 per piece irrespective of the denomination. Mutilated notes of 100 pieces and above per remittance shall be debited immediately. Penalty may be levied on reaching a limit of 100 pieces in a cumulative manner.
- In case of non-compliance with operational guidelines by currency chests detected by the Reserve Bank officials in (a) non-functioning of CCTV, (b) branch cash/documents kept in strong room and (c) non-utilisation of note sorting machines (NSMs) for sorting of notes, penalty would be of ₹5000 for each irregularity. Penalty will be enhanced to ₹10,000 in case of repetition and will be levied immediately.
- For violation of any term of agreement with the Reserve Bank (for opening and maintaining currency chests) or deficiency in service in providing exchange facilities, as detected by the Reserve Bank officials, the penalty would be ₹10000 for each instance of violation and ₹5 lakh in case there are more than five instances of violation of agreement/deficiency in service by the branch. The levy of such penalty will be placed in public domain.

Competent and Appellate Authority

The Officer-in-Charge of the Issue Department of the Regional Office under whose jurisdiction the defaulting currency chest/bank branch is located, is the Competent Authority to decide the nature of irregularity and Regional Director of the Regional Office concerned is the appellate authority. (<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11147&Mode=0>)

Penal Interest for Delayed Reporting of Currency Chest

With a view to sustain efforts and ensure discipline among the banks on timely and accurate reporting of currency chest transactions, the Reserve Bank on October 12, 2017 advised that the currency chests should invariably report all transactions through ICCOMS on the same day by 9 PM by uploading data through the Secured Website (SWS) to their respective link offices. Link offices should invariably report the consolidated position to the Issue Offices latest by 11 PM on the same day. The Sub-Treasury Offices (STOs) should report all transactions directly to the Issue Office of the Reserve Bank by 11 PM on the same day. Relaxation in the reporting period on account of general/specific strike situation will be considered on case-to-case basis.

Levy of Penal Interest for Delays

In the event of delay in reporting currency chest transactions, penal interest would be levied on the amount due from the chest holding bank for the period of delay.

Wrong Reporting and Levy of Penal Interest

Penal interest would be levied in respect of all cases of wrong reporting in the same manner till the date of receipt of corrected advice by Reserve Bank.

Reporting of Soiled Note Remittances/Diversion to Other Chests

Soiled note remittances to the Reserve Bank/diversion to other currency chest/s should not be shown as withdrawal by chest/s/link offices. In case such remittances are wrongly reported as 'withdrawals', a penalty of ₹50,000/- would be levied irrespective of the value of remittance and period of such wrong reporting. As regards reporting of diversion/s in ICCOMS, they must be reported in the prescribed column in the chest slip without any delay.

Maximum Penal Interest to be charged

As the intention is to ensure timely and correct reporting of chest transactions, penal interest will be recovered in all applicable cases, irrespective of the amount of the transaction concerned/amount of penal interest subject to rounding off the penal interest amount to the nearest Rupee.

Penal Interest for Inclusion of Ineligible Amounts in the Currency Chest Balances

Penal interest would be levied in all cases where the bank has enjoyed 'ineligible' credit in its current account with the Reserve Bank on account of wrong reporting / delayed reporting/non-reporting of transactions.

Representation

As the sole criterion for levy of penal interest for delayed reporting is the number of days of delay, there should ordinarily be no occasion for banks to request for reconsideration of the Reserve Bank's decision in individual cases. However, representations, if any, on account of genuine difficulties faced by chests especially in hilly/remote areas and those affected by natural calamities, etc., may be made to the Issue Office concerned through the Head/Controlling office of the bank concerned within a month from the date of debit of the bank concerned. (<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11148&Mode=0>)

Award for Outstanding Hindi Writings in Banking

With a view to encourage original writings and research in Banking Hindi, the Reserve Bank of India on October 16, 2017 launched an 'Award scheme for outstanding Hindi writings in the field of banking'.

Under the scheme, Professors (including Assistant and Associates, etc.) of Indian Universities may be awarded three prizes of ₹1,25,000.00 (Rupees one lac twenty five thousand only) each for writing books originally in Hindi

on Economics/Banking/Financial subjects. Interested Professors willing to participate in the scheme may submit their entries in the prescribed proforma to the Deputy General Manager in-charge, Reserve Bank of India, Rajbhasha Vibhag, Central Office, C-9, 2nd Floor, Bandra Kurla Complex, Mumbai - 400 051 by December 15, 2017 on or before 5.00 PM. (https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=41984)