

MONETARY & CREDIT INFORMATION REVIEW



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Note from the Editor

Welcome to yet another edition of the Monetary and Credit Information Review (MCIR). This monthly periodical of the RBI helps keep abreast with new developments and important policy initiatives taken by the RBI during the month of September in the world of money and credit. MCIR can be accessed at <https://mcir.rbi.org.in> as well as by scanning the QR code.

Through this communication tool, we aim to share information, educate, and stay in touch while ensuring factual accuracy and consistency in disseminating the information.

We welcome your feedback at mcir@rbi.org.in

Yogesh Dayal
Editor

I. Internal Working Group to Review the Liquidity Management Framework

The report of the Internal Working Group to review the Liquidity Management Framework (LMF) constituted by the Reserve Bank of India has been placed in the public domain on September 26, 2019. RBI had announced in the [Statement on Developmental and Regulatory Policies](#) released along with the Second Bi-monthly Monetary Policy Statement 2019-20 that an Internal Working Group was mandated to review the current LMF will be constituted to clearly communicate the objectives and the toolkit for liquidity management. The group has made the following key recommendations in its report:

- ❑ The current Liquidity Management Framework should largely continue in its present form - a corridor system with the call money rate as the target rate.
- ❑ The framework should be flexible. While the corridor system would normally require the system liquidity to be in a small deficit, if financial conditions warrant a situation of liquidity surplus, the framework should be adaptable.
- ❑ Minimizing the number of operations should be an efficiency goal of the liquidity framework. Consequently, there should be ideally one single overnight variable rate operation in a day, supported by fine-tuning operations, if required.
- ❑ The current provision of assured liquidity – up to 1% of NDTL - is no longer necessary since the proposed liquidity framework would entirely meet the system's liquidity needs.

❑ Build-up of a large deficit or surplus, if expected to persist, should be offset through appropriate durable liquidity operations. In addition to OMOs and forex swaps, the group recommended longer term repo operations at market related rates.

❑ The daily dissemination through Money Market Operations (MMO) press release should be improved by including the 'flow' impact of liquidity operations. To improve transparency, quantitative assessment of durable liquidity conditions of the banking system may also be published.

The liquidity framework shall be finalized taking into account the recommendations of the Group and the public feedback. The full report has been placed on the RBI website and it can be accessed by clicking [here](#).

II. Banker to Government

Recovery of Interest on delayed remittance of Government Receipts

With the objective to bring further uniformity in the procedure for reporting both central and state government transactions to the RBI, it has been decided to ignore petty claims of penal interest involving an amount of ₹ 500/- or below

and excluding them from the purview of penal interest, and applying the limit of penal interest of ₹500/- on per transaction basis. The state governments are also being advised about the issuance of this instruction. To read more, please click [here](#).

III. Banking Regulation

III a) Draft Guidelines for 'On Tap' Licensing for Small Finance Banks

As announced in its [Second Bi-monthly Monetary Policy Statement](#), 2019-20, the RBI on September 13, 2019 released on its website the 'Draft Guidelines for 'on Tap' Licensing of Small Finance Banks in the Private Sector for comments of stakeholders and members of the public. The draft guidelines can be read by clicking [here](#).

III b) Large Exposures Framework

The RBI on September 12, 2019 decided that a bank's exposure to a single NBFC (excluding gold loan companies) will be restricted to 20 per cent of that bank's eligible capital base. Bank finance to NBFCs predominantly engaged in lending against gold will continue to be governed by limits as prescribed in the circular dated May 18, 2012. To read more, please click [here](#).

III c) Risk Weight for Consumer Credit

As stated in the [Statement on Developmental and Regulatory Policies](#), released along with the Third Bi-Monthly Monetary Policy Statement, the RBI on September 12, 2019 decided to reduce the risk weight for consumer credit, including personal loans but excluding credit card receivables, to 100 per cent. As per extant instructions, consumer credit, including personal loans and credit card receivables but excluding educational loans, attracts a higher risk weight of 125 per cent or higher, if warranted by the external rating of the counterparty. To read more, please click [here](#).

III d) External Benchmark Based Interest Rate

As announced in the [Statement on Developmental and Regulatory Policies](#) released along with the Fifth Bi-monthly Monetary Policy Statement and the Statement on Development and Regulatory Policies released along with the [First Bi-monthly Monetary Policy Statement](#), the RBI on September 4, 2019

made it mandatory for banks to link all new floating rate personal or retail loans and floating rate loans to MSMEs to an external benchmark with effect from October 1, 2019. The banks are free to choose one of the several benchmarks indicated in the circular. They are also free to choose their spread over the benchmark rate, subject to the condition that the credit risk premium may undergo change only when borrower's credit assessment undergoes a substantial change, as agreed upon in the loan contract. The detailed circular on External Benchmark Based Interest Rate has been placed on the Bank's website and can be accessed by clicking [here](#).

IV. Banking Supervision

IV a) Concurrent Audit System in Commercial Banks

The RBI on September 18, 2019, decided to review and revise the guidelines on Concurrent Audit System in commercial banks. It has been observed that differing levels of centralization in banks, diverse nature of activities undertaken by various banks and commencement of operations by small finance banks and payment banks, a common programme of work for concurrent audit applicable to all banks may not be desirable. The existing guidelines have been reviewed and revised. To read the revised guidelines, please click [here](#).

V. Financial Inclusion

V a) Internal Working Group to Review Agricultural Credit

As announced in the [Statement on Developmental and Regulatory Policies](#) released along with the Sixth Bi-monthly Monetary Policy Review, 2018-19, the internal working group to review agricultural credit submitted its report to the Governor, Reserve Bank of India on September 6, 2019.

The scope of the review included inter alia:

- i) **Credit reach:** Institutional credit, measures and factors/drivers that influence reach.
- ii) **Cost-effective and inclusive system:** Ease of credit and inclusiveness.
- iii) **Credit Discipline:** Impact of loan waivers on state finances and agricultural credit. To read the full report, please click [here](#).

V b) Classification of Exports under PSL

The RBI on September 20, 2019 decided to effect changes in para 8 of the “Master Direction on Priority Sector Lending Targets and Classification” dated July 7, 2016 (updated as on December 4, 2018) with the objective to boost credit to the export sector. It has been decided to:

- i) Enhance the sanctioned limit, for classification of export credit under PSL, from ₹250 million per borrower to ₹400 million per borrower and,
- ii) Remove the existing criteria of ‘units having turnover of up to ₹1 billion.

The existing guidelines for domestic scheduled commercial banks to classify ‘Incremental export credit’ over the corresponding date of the preceding year, up to 2 per cent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher under PSL will continue to be applicable subject to the criteria mentioned at (i) above. To read more, please click [here](#).

VI. Payment & Settlement System

VI a) Harmonisation of Turn Around Time (TAT) and Customer Compensation for Failed Transactions

As stated in the [Statement on Developmental and Regulatory Policies](#) released along with the Second Bi-monthly Monetary Policy for 2019-20, the RBI has finalised the framework for Turn Around Time (TAT) for resolution of customer complaints and compensation framework across all authorised payment systems. This is will result in customer confidence and bring in uniformity in processing of failed transactions. The prescribed TAT is the outer limit for resolution of failed transactions and the banks and other operators/system participants shall endeavour towards quicker resolution of failed transactions. Customers who do not get the benefit of redress of the failure as defined in the TAT, can register a complaint to the Banking Ombudsman. To read more, please click [here](#).

VI b) Discussion Paper on Guidelines for Payment Gateways and Payment Aggregators

The RBI on September 17, 2019, placed on its website a discussion paper on ‘Guidelines for Payment Gateways and Payment Aggregators’ for public comments. The Bank had in the [Statement on Developmental and Regulatory Policies](#) released with the Sixth Bi-monthly Monetary Policy Statement for 2018-19 announced that a discussion paper will

be placed in the public domain for consultation with the stakeholders on comprehensive guidelines covering payments related activities of payment gateway providers and payment aggregators. Stakeholders and members of the public can send comments on the policy paper by October 17, 2019. To read more, please click [here](#).

VI c) BBPS – Expansion of Biller Categories

As announced in the [Statement on Developmental and Regulatory Policies](#) released with the Third Bi-monthly Monetary Policy Statement 2019-20, the RBI has decided to expand the scope and coverage of the Bharat Bill Payment System (BBPS) to include all categories of billers who raise recurring bills (except prepaid recharges) as eligible participants, on a voluntary basis. BBPS, as an interoperable platform for repetitive bill payments, currently covers bills of five segments viz., Direct to Home (DTH), Electricity, Gas, Telecom and Water. This directive is issued under Section 10 (2) read with Section 18 of the Payment and Settlement Systems Act, 2007. To read more, please click [here](#).

VI d) Disbursement of Government Pension by Agency Banks

The RBI has revised and updated the Master Circular on Disbursement of Government Pension and placed the same in public domain on the Bank’s website. The revised circular consolidates important instructions on the subject issued by the Reserve Bank of India till June 30, 2019. The copy of the master circular can be accessed by clicking [here](#).

VII. Research

Research Articles

The RBI on September 12, 2019 released the [September 2019](#) Bulletin which carried two research articles. The first article on “Union Budget 2019-20 : An Assessment”, prepared by Ms. Kaushiki Singh, Shri Saksham Sood, Ms. Kirti Gupta and Shri Neeraj Kumar, Department of Economic and Policy Research (DEPR), RBI, analyses the key features of the Union Budget 2019-20 presented on July 5, 2019. The article concludes that the financial sector reforms announced in the Union Budget along with recapitalisation of Public Sector Banks (PSBs) will facilitate overall credit growth in the economy. The second article on “Foreign Trade Agreements: An

analysis”, prepared by Smt. Rekha Misra and Ms. Sonam Choudhry, DEPR, RBI, evaluates the impact of Trade Agreements (TAs) on India’s trade, to gain insights on how it has evolved with its trade agreement partner countries relative to non-partner countries. The study utilises the difference in the approach to estimate the increase in trade flows of India compared with partner countries. To read more, please click [here](#).

VIII. Data Releases

Handbook of Statistics on the Indian Economy 2018-19

The RBI released its annual publication titled “Handbook of Statistics (HBS) on the Indian Economy 2018-19”. This publication, the 21st in the series, disseminates time series data on various economic and financial indicators relating to the Indian economy. The current volume contains 240 statistical tables covering national income aggregates, output, prices, money, banking, financial markets, public finances, foreign trade and balance of payments and select socio-economic indicators. The document can be accessed by clicking [here](#).

IX. Reports

IX a) Task Force on Development of Secondary Market for Corporate Loans

The Task Force on Development of Secondary Market for Corporate Loans constituted under the chairmanship of Shri T.N. Manoharan, Chairman, Canara Bank, submitted its report to the Governor, Reserve Bank of India on September 3, 2019. The key recommendations of the Task Force are as follows:

- i) Setting up of a self-regulatory body of participants which will finalise detailed modalities for the secondary market for corporate loans including standardisation of documentation;
- ii) Setting up a Central Loan Contract Registry;
- iii) Setting up an online loan sales platform to conduct auctions/sale process of the secondary market loans;
- iv) Amending the extant regulations applicable to, inter-alia, securitization and assignment of loans, asset reconstruction, Foreign Portfolio Investment and External Commercial Borrowings; and
- v) Amendments in regulations issued by SEBI, IRDA and PFRDA to enable participation of non-banking entities such as mutual funds, insurance companies and pension funds. The full report of the task force can be read by clicking [here](#).

IX b)

Committee on the Development of Housing Finance Securitisation Market

The Committee on the Development of Housing Finance Securitisation Market, under the chairmanship of Dr. Harsh Vardhan, Senior Advisor, Bain & Co., submitted its report to the Governor, RBI on September 9, 2019. The key recommendations of the Committee, guided by the broad perspective of enhancing efficiency and transparency of securitisation transactions, are as follows:

- i) Setting up of a government sponsored intermediary, through the National Housing Bank, to enable market making and standard setting;
- ii) Developing standards for loan origination, loan servicing, loan documentation, and loans to be eligible for securitisation, including standardised formats for data collection and aggregation;
- iii) Separation of regulatory guidelines for direct assignment transactions and transactions involving pass through certificates as well as for Mortgage Backed Securities (MBS) and Asset Backed Securities (ABS);
- iv) Relaxation of regulatory norms for Minimum Holding Period (MHP) and Minimum Retention Requirement (MRR) for MBS;
- v) Amendments and/or clarifications for registration and stamp duty requirements and tax guidelines to reduce the transaction costs for securitisation as also to encourage investments in pass-through-securities;
- vi) Treating the assets underlying a securitisation transaction as well as any exposures in the form of credit enhancement as bankruptcy remote under the insolvency laws for financial firms; and,
- vii) Changes to regulations issued by financial sector regulators to incentivise participation of their respective regulated entities as investors.

The full report can be read by clicking [here](#).

X. RBI’s Top Management Speaks...

❑ Shri Shaktikanta Das, Governor, Reserve Bank of India spoke on ‘[Dimensions of India’s External Sector Resilience](#)’ at the Bloomberg India Economic Forum 2019 on September 19, 2019, in Mumbai.

❑ Shri M.K. Jain, Deputy Governor, Reserve Bank of India gave a talk on ‘[Regulatory and Supervisory Expectations on Compliance Function in Banks](#)’ at the Financial Institution Benchmarking and Calibration (FIBAC) 2019 – the Annual Global Banking Conference organised by Indian Banks Association and Federation of Indian Chambers of Commerce and Industry, on September 23, 2019, in Mumbai.