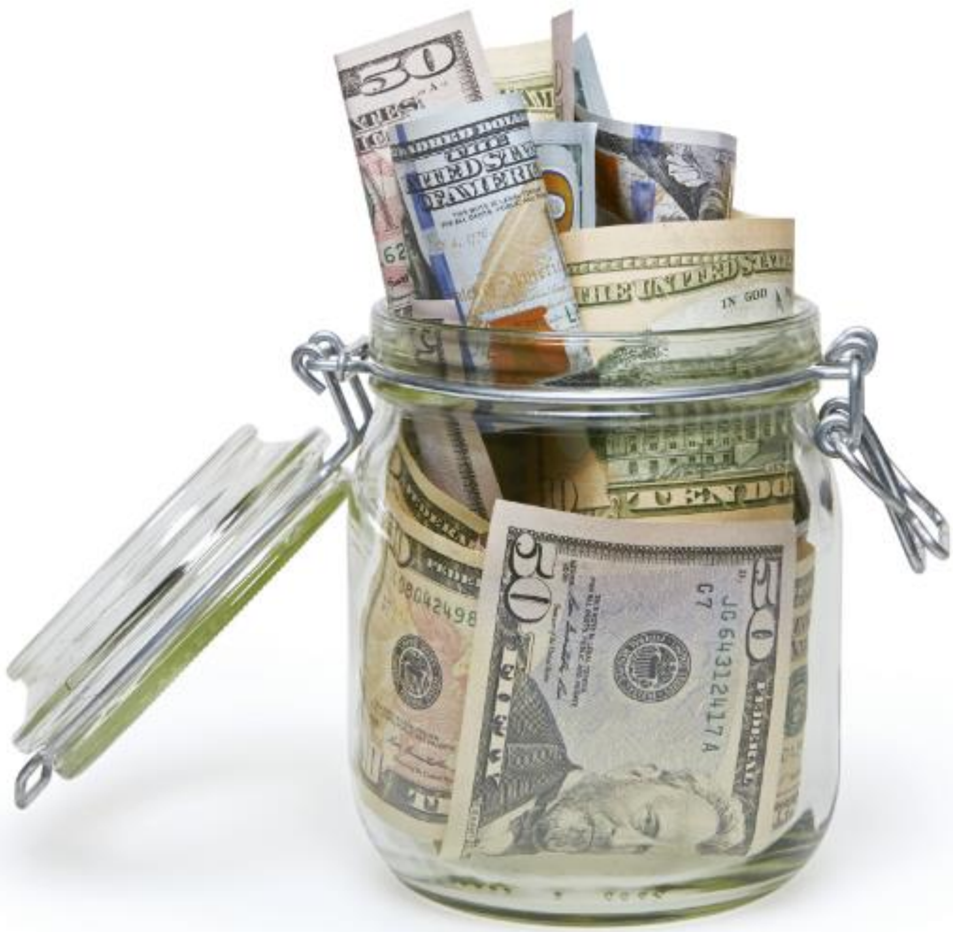
Regulatory Impact Assessment
Banking



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Preface

The RBI had identified 5 pillars in its Second Quarter Monetary Review released in October 2013, based on which its developmental measures were to be effected in the ensuing quarters. The pillars enlisted by RBI are as follows:

1. Clarifying and strengthening the monetary policy framework.
2. Strengthening banking structure through new entry, branch expansion, encouraging new varieties of banks, and moving foreign banks into better regulated organizational forms.
3. Broadening and deepening financial markets and increasing their liquidity and resilience so that they can help absorb the risks entailed in financing India's growth.
4. Expanding access to finance to small and medium enterprises, the unorganized sector, the poor, and remote and underserved areas of the country through measures to foster financial inclusion.
5. Improving the system's ability to deal with corporate distress and financial institution distress by strengthening real and financial restructuring as well as debt recovery.

Over the past few months, it has become evident that the RBI plans to stick to its developmental objectives as identified in these pillars. The Framework for Revitalizing Distressed Assets in the Economy; Capital and Provisioning requirements for Exposures to Entities with Unhedged Foreign Currency Exposure and introduction of new instruments like the Inflation Indexed Bonds are some of the initiatives introduced by the RBI in line with the developmental objectives laid down by the Bank. The decision to release bi-monthly monetary policy statements to facilitate greater transparency is also in tandem with these objectives.

The notifications in March, 2013 too are largely aimed towards the 2nd, 3rd and 4th developmental pillars. The revised guidelines regarding cancellation of contracts booked on a past performance basis distinctly points to the 2nd developmental pillar. Further, introduction of cap on MFI lending to be categorized as priority sector loans is a deliberate move on part of the RBI to ensure achievement of financial inclusion. The integration of new and improved technology for strengthening of the banking structure is another feature of the notifications issued in March.

Another objective that the RBI has been pursuing off late is the rationalization of the investment climate within the country. Though the government has introduced various attractive schemes for investment, foreign investors are apprehensive to enter Indian markets due to the various compliance complexities and the myriad operational issues. The guideline for Merchanting transactions is an attempt to address these issues. The FEMA notifications issued by RBI pave way for the orderly implementation of FPI regime as notified by SEBI. Additional guidelines with regard to the FPI framework are in the pipeline.

Further, the FEMA notifications issued this month indicate that the RBI wants to encourage inflow of foreign exchange into the economy. The measures to provide an impetus to the inflows could be stemming from the fact that the current levels of FX reserves at $298 billion, although showing an increasing trend, are not adequate.

Coming to the macro- economic climate, retail inflation in March inched up to 8.31 per cent from 8.03 in February, mainly on account of a rise in fruit and vegetable prices. This is indicative of the fact that the disinflationary impact from improved food supply is now behind us and the inflation figures for March also showed that broader underlying inflation pressures are still firm.

The RBI has little control over food and fuel prices, but it is the second-order impact of higher food and fuel that the RBI will look to contain. The RBI is likely to remain in wait-and-see mode for now, but it may eventually need to respond by tightening policy rates further to contain upside risks to inflation if it intends to follow the glide path of 8-6-4 recommended by the Patel Committee.

Going forward, El Niño and geopolitical uncertainties are additional risks to inflation that have emerged in recent months which may lead the RBI to adopt a hawkish stance. However, if the new government manages to trim the fiscal deficit (in line with the FBRM, 2003 requirements) and if the RBI Governor keeps his promise on rates, the above mentioned risks could be averted.

In case you need further information, please contact us at **inri@deloitte.com**

International Monetary Policy Cooperation
A Perspective

At his recent speech at the Hutchins Center on Fiscal and Monetary Policy at Brookings, Governor Raghuram Rajan called for better international coordination among the world's central banks, saying that the Federal Reserve is paying insufficient attention to the ripple effects that its exit from today's ultra-easy monetary policy will have on emerging markets. He urged the Fed and other major central banks to reinterpret and broaden their mandates, now largely defined in domestic terms, to take into account the effect their policies will have on the emerging economies. Highlighting the need to ensure stable and sustainable growth, he cited that the international rules of the game need to be revisited, which both advanced economies and emerging economies need to adapt to.

The Fed postponing tapering in September 2013, in order to delay scaling back its purchases of long-term bonds allowed emerging economies more time to adjust after the initial indication of the same in May 2013. Although decision was taken for domestic reasons, this didn't seem to have any adverse effect on the emerging markets initially, Rajan noted. However, with volatility hitting emerging markets after the Argentinian problems in January 2014, he criticized the Fed policy statement in January 2014, for no mention of concern about the emerging market situation, and for no indication that Fed policy would be sensitive to conditions in those markets in the future. This probably sent out an unintended message that those markets were on their own, reflected in their market volatility.

He proposed that large country central banks, both in advanced countries and emerging markets, internalize more of the spillovers from their policies in their mandate and avoid unconventional policies with large adverse spillovers in addition to questionable domestic benefits. Given the difficulties of operationalizing the same, he suggested that, at the very least, central banks reinterpret their domestic mandate to take into account other country reactions over time and not just the immediate feedback effects, and thus become more sensitive to spillovers.

Is an International Monetary policy cooperation regime practical to implement and will the gains from it justify the endeavor to establish such system?

The fact is we do not live in a completely globalized world. The global economy is at a stage where we have some fully open economies, some partially open economies (like India) and some which are still closed economies. They all have different prerogatives and the objectives of their respective central banks are subjective to their domestic state of affairs to a great degree. There is no denying that with increasing globalization, we are witnessing unprecedented monetary policy transmission which has its own share of repercussions. However, all economies do not get affected in a similar manner. It is possible that what may be an adverse spillover for one economy may be desirable for another. Inadvertently, their policy responses will also be different.

Another factor which will be essential for the successful establishment of International Cooperation of Monetary Policy is international discipline. The developed nations should take view of the status of the world economy and also the impact of their monetary policy on the world economy as a whole before taking any action on the policy front. The distinction between monetary policies aimed at their domestic objectives and trade-diverting exchange rate devaluations or such other protectionist measures are critical in this regard. However, the criteria for such distinction will differ from economy to economy. Additionally, international monetary policy cooperation does not appear to be in interest of individual nations, for it suggests that the monetary policy should take into account the development needs of other economies, to the possible detriment of one's own. It is, therefore, not very politically viable. In conclusion, a large number of hurdles are in the way of implementation of such international monetary policy cooperation and thus, it is a very far-fetched approach existing only in a perfect theoretical world.

However, as utopian as Rajan's proposal may sound, the present world economic scenario necessitates factoring in the impacts that the monetary policies of the developed economies may have on the developing and undeveloped markets. There is a pressing need for the setting up of stronger international safety nets to provide liquidity to countries when major central banks trigger substantial shifts in global financial markets. Generally, the emerging economies are the ones most impacted due to such unconventional policy moves. Rajan's speech also seems to suggest for a need for emerging economies to have a larger voice share on the world platform. However, given the current scenario, this seems far-fetched as all the developed economies are still recovering from the effects of The Great Recession. His suggestions may not find many takers till the world economy recovers even though the rationale behind his approach has merits.

Key Guidelines issued by RBI during the month

Priority Sector Lending-Targets and Classification-Bank loans to MFIs for on-lending-pricing criteria

RBI Circular Reference: RBI/2013-14/515

Date of Notification: March 12, 2014

Applicable Entities: All scheduled commercial banks (excluding Regional Rural Banks)

Background & Objective

MFIs need to strike a balance between their dual objectives of commercial viability and serving the low-income groups. MFIs do not receive any subsidized credit for their lending activities and hence need to recover their operational costs from the borrowers. As a result, MFIs lend at very high interest rates. Thus, while the basic objective of financial inclusion is being met, the high cost of funds serves as a key deterrent. It is important that these institutions should be willing to operate at narrow margins so as to ensure that MFIs maintain a balance between their dual objectives.

Extract of the Directives Issued by the RBI

On a review of the above provision, it has been decided that banks have to ensure MFIs comply with the cap on individual loans and margin cap as under in order to be eligible to classify these loans under priority sector as under:-

(i) Cap on individual loans: - The average Base Rate of five largest commercial banks by assets multiplied by 2.75 per annum or cost of funds plus margin cap, whichever is less. The average of the Base Rate shall be advised by Reserve Bank of India.

(ii) Margin cap: Further, with effect from April 1, 2014, the margin cap shall not exceed 10 per cent for MFIs having loan portfolio exceeding Rs.100 crore and 12 per cent for others, as against 12 per cent for all hitherto.

Implications

The banks will now have to obtain an undertaking from the MFIs to ensure compliance with the following cap limits in order to classify the loans forwarded to MFIs as priority sector loans:

Cap on Individual Loans = Lower of:

Average Base rate x 2.75

OR

Cost of funds + Margin cap

Where margin cap equals

- 10% for MFIs having loan portfolio > INR 100 crore; and
- 12% for other MFIs

With the proposed reduction in interest spread, the demand for loans for MFIs will increase.

For MFIs, the impact on profitability due to the reduced interest spread could be a matter of concern. However, profitability of MFIs already lending at an interest spread of 10 per cent or lower will not be significantly affected.

Risk Management and Inter Bank Dealings

RBI Circular Reference: RBI/2013-14/540

Date of Notification: March 27, 2014

Applicable Entities: All Category – I Authorised Dealer Banks

Background & Objective

The banks can book forward contracts on the basis of their past performance, according to the limits as prescribed by RBI from time to time. Previously, all forward contracts booked under this facility by both exporters and importers were required to be on fully deliverable basis. In case of cancellation, exchange gain, if any, could not be passed on to the customer. The RBI has relaxed this restriction and has now allowed cancellation of 75 per cent the contracts booked under this facility.

This move is expected to help corporates hedge their currency exposures effectively on a real time basis by incorporating more recent views of the market.

Extract of the Directives Issued by the RBI

Under extant guidelines relating to hedging of currency risk of probable exposures based on past performance by residents,

a. Exporters are allowed to hedge currency risk on the basis of a declaration of an exposure up to an eligible limit computed as the average of the previous three financial years' (April to March) actual export turnover or the previous year's actual export turnover, whichever is higher.

b. Importers are allowed to hedge up to an eligible limit computed as 25 per cent of the average of the previous three financial years' actual import turnover or the previous year's actual import turnover, whichever is higher.

c. All forward contracts booked under this facility by both exporters and importers are required to be on fully deliverable basis. In case of cancellation, exchange gain, if any, should not be passed on to the customer.

In order to provide greater operational flexibility, it has been decided to relax the restriction at paragraph 2(c) above. Henceforth, contracts booked up to 75 per cent of the eligible limit mentioned at paragraph 2(a) and 2(b) above may be cancelled with the exporter/importer bearing/being entitled to the loss or gain as the case may be. Contracts booked in excess of 75 per cent of the eligible limit mentioned at paragraph 2(a) and 2(b) above shall be on a deliverable basis and cannot be cancelled, implying that in the event of cancellation, the exporter/importer shall have to bear the loss but will not be entitled to receive the gain.

Implications

The banks would need to institute a monitoring framework to ensure that gains, if any, in the case of contracts booked in excess of 75% of the eligible limit are not passed to the client.

Henceforth, 75% of the eligible limit on the basis of the client's past performance may be cancelled with the exporter/importer bearing/being entitled to the loss or gain as the case may be. Contracts booked in excess of 75% of the eligible limit shall be on a deliverable basis and cannot be cancelled, implying that in the event of cancellation, the exporter/importer shall have to bear the loss but will not be entitled to receive the gain.

With this move RBI intends to broaden and deepen the financial markets and increase its risk absorbing capacity, though this may also result in increase in volatility of currency markets.

Merchanting Trade Transactions - Revised guidelines

RBI Circular Reference: RBI/2013-14/545

Date of Notification: March 28, 2014

Applicable Entities: All Category – I Authorised Dealer Banks

Background & Objective

The objective of the guideline being introduced is to further liberalize and simplify procedures with regards to the merchanting trade transactions. The RBI has based these revised guidelines on the recommendations of industry leaders and a committee headed by G Padmanabhan. The new norms will help the AD Category- I banks with merchanting trade transactions and are effective for the said transactions initiated after January 17, 2014.

Directives Issued by the RBI

1. In view of suggestions received from merchanting traders and trade bodies, the guidelines on merchanting trade transactions, in terms of A.P. (DIR Series) Circular No. 95 dated January 17, 2014 have been further reviewed. Accordingly, it has been decided to issue revised guidelines as under:

For a trade to be classified as merchanting trade following conditions should be satisfied;

a) Goods acquired should not enter the Domestic Tariff Area and
b) The state of the goods should not undergo any transformation ;

Goods involved in the merchanting trade transactions would be the ones that are permitted for exports / imports under the prevailing Foreign Trade Policy (FTP) of India, as on the date of shipment and all the rules, regulations and directions applicable to exports (except Export Declaration Form) and imports (except Bill of Entry), are complied with for the export leg and import leg respectively;

AD bank should be satisfied with the bonafides of the transactions. Further, KYC and AML guidelines should be observed by the AD bank while handling such transactions;

Both the legs of a merchanting trade transaction are routed through the same AD bank. The bank should verify the documents like invoice, packing list, transport documents and insurance documents (if originals are not available, Non-negotiable copies duly authenticated by the bank handling documents may be taken) and satisfy itself about the genuineness of the trade ;

The entire merchanting trade transactions should be completed within an overall period of nine months and there should not be any outlay of foreign exchange beyond four months;

The commencement of merchanting trade would be the date of shipment / export leg receipt or import leg payment, whichever is first. The completion date would be the date of shipment / export leg receipt or import leg payment, whichever is the last;

Short-term credit either by way of suppliers' credit or buyers' credit will be available for merchanting trade transactions, to the extent not backed by advance remittance for the export leg, including the discounting of export leg LC by an AD bank, as in the case of import transactions ;

In case advance against the export leg is received by the merchanting trader, AD bank should ensure that the same is earmarked for making payment for the respective import leg. However, AD bank may allow short-term deployment of such funds for the intervening period in an interest bearing account;

Merchanting traders may be allowed to make advance payment for the import leg on demand made by the overseas seller. In case where inward remittance from the overseas buyer is not received before the outward remittance to the overseas supplier, AD bank may handle such transactions by providing facility based on commercial judgment. It may, however, be ensured that any such advance payment for the import leg beyond USD 200,000/- per transaction, the same should be paid against bank guarantee / LC from an international bank of repute except in cases and to the extent where payment for export leg has been received in advance ;

Letter of credit to the supplier is permitted against confirmed export order keeping in view the outlay and completion of the transaction within nine months;

Payment for import leg may also be allowed to be made out of the balances in Exchange Earners Foreign Currency Account (EEFC) of the merchant trader;

AD bank should ensure one-to-one matching in case of each merchanting trade transaction and report defaults in any leg by the traders to the concerned Regional Office of RBI, on half yearly basis in the format as provided in the circular, within 15 days from the close of each half year, i.e. June and December ;

The names of defaulting merchanting traders, where outstandings reach 5% of their annual export earnings, would be caution-listed.

2. The merchanting traders have to be genuine traders of goods and not mere financial intermediaries. Confirmed orders have to be received by them from the overseas buyers. AD banks should satisfy themselves about the capabilities of the merchanting trader to perform the obligations under the order. The overall merchanting trade should result in reasonable profits to the merchanting trader.

3. It is clarified that the contents of this circular would come into effect in respect of merchanting trade transactions initiated after January 17, 2014.

Implications

The revised guidelines introduce the following major changes for banks involved in merchanting transactions:

1. Trade Credit products like buyer’s credit, supplier’s credit and LC discounting for export leg are now allowed for merchanting transactions. However, banks need to make sure that the amount of advance receipt should be deducted from any of the credit provided under these facilities.
2. The RBI has introduced this directive to ensure that merchants do not misuse the facility of credit provided by taking advance and additionally taking credit by means of Letter of Credit.

3. Where previously defaults were considered on a per transaction basis, now the banks will have to monitor the annual export earnings of the merchants to ensure that traders whose outstanding exports earnings reach 5 % of their annual export earnings are caution listed. One to One Matching of transactions needs to be done by banks and any instances of default need to be reported to RBI in the specified format on a half yearly basis within 15 days from the close of the half year.
4. Banks will have to additionally check the above mentioned caution list along with observing the KYC and AML guidelines while handling such transactions.
5. Banks need to make sure that merchanting traders are genuine traders of goods and not mere financial intermediaries and are able to perform the obligations under the order. The overall merchanting trade should result in reasonable profits to the merchanting trader. It can be noted that the RBI has not given any definition as to what will amount to reasonable profit, what are the identifiers of a genuine trade and how will the bank determine the capability of trader to perform the obligation. This has been kept open to the discretion of the banks.

Banks will thus have to establish a framework to ensure compliance with the revised guidelines mentioned above.

Key Guidelines issued by RBI on FEMA

Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) (Second Amendment) Regulations, 2014

RBI Circular Reference: FEMA. 297/2014-RB

Date of Notification: March 13, 2014

Applicable Entities: FIIs and QFIs

Background & Objective

In exercise of the powers conferred by clause (b) of sub-section (3) of Section 6 and Section 47 of the Foreign Exchange Management Act, 1999 (42 of 1999), the Reserve Bank of India made amendments in the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2000 vide this notification as a result of which the Schedule 2A of the Regulations have been changed.

The introduction of this guideline paves the way for implementation of the FPI Regulations that was notified by SEBI in January 2014. Through the introduction of the FPI framework, reduction in aggregate portfolio investment limits by FIIs and QFIs in Indian companies has been brought by the RBI, which has been further explained in the 'Implications' section.

Extract of the Directives Issued by the RBI

Purchase/Sale of Shares / convertible debentures of an Indian Company by Registered Foreign Portfolio Investor (RFPI) under Foreign Portfolio Investment (FPI) Scheme

1. Purchase/sale of shares and/or convertible debentures

A Registered Foreign Portfolio Investor (RFPI) registered in accordance with Securities and Exchange Board of India (Foreign Portfolio Investors) Regulations, 2014, as amended from time to time, may purchase shares and convertible debentures of an Indian company under FPI Scheme.

2. Maintenance of account by a RFPI for routing transactions of purchase and sale of shares / convertible debentures

(i) A RFPI may open a Foreign Currency Account and/or a Special Non-Resident Rupee Account with a designated branch of an Authorized Dealer for routing the receipt and payment for transaction relating to purchase and sale of shares/convertible debentures under this Scheme, subject to the following conditions:

- The Account shall be funded by inward remittance through normal banking channels or by credit of sale proceeds (net of taxes) of the shares/convertible debentures sold on stock exchange.
- The funds in the account shall be utilized for purchase of shares/ convertible debentures in accordance with the provisions of paragraph 1 of this Scheme or for remittance outside India.
- The funds from Foreign Currency Account of the RFPI may be transferred to Special Non-Resident Rupee account of the same RFPI and vice-versa.
- The Foreign Currency Account and the Special Non-Resident Rupee account of the RFPI shall be non-interest bearing account/s.

(ii) The amount of consideration for purchase of shares / convertible debentures shall be paid out of inward remittance from abroad through normal banking channels or out of funds held in an account maintained with the designated branch of an authorised dealer in India, in accordance with these Regulations.

(iii) The total holding by each RFPI shall be below 10% (ten per cent) of the total paid-up equity capital or 10% (ten per cent) of the paid-up value of each series of convertible debentures issued by an Indian company and the total holdings of all RFPI put together shall not exceed 24 per cent of paid-up equity capital or paid up value of each series of convertible debentures. The said limit of 24 per cent will be called aggregate limit.

Provided that the aggregate limit of 24% referred to in this paragraph may be increased up to the sectoral cap/statutory ceiling, as applicable, by the Indian company concerned by passing a resolution by its Board of Directors followed by passing of a special resolution to that effect by its General Body.

Explanation:

(1) For arriving at the ceiling on holdings of RFPI, shares/ convertible debentures acquired both through primary as well as secondary market will be included. However, the ceiling will not include investment made by RFPI through off-shore Funds, Global Depository Receipts and Euro-Convertible Bonds.

(2) For computation of 24% or enhanced limit as the case may be, holding of RFPI and deemed RFPI in the investee company shall be included.

(iv) A RFPI is permitted to purchase shares/convertible debentures of an Indian company through offer/private placement, subject to the ceiling specified in sub-paragraph (iii) of this paragraph and the Indian company is permitted to issue such shares;

Provided that –

in case of Public Offer, the price of the shares to be issued is not less than the price at which shares are issued to residents, and

in case of issue by private placement, the price is not less than the price arrived in terms of SEBI guidelines or not less than the fair price worked out as per the Discounted free Cash Flow method duly certified by a SEBI registered Merchant Banker or Chartered Accountant, as applicable.

Explanation:

Where a registered foreign institutional investor or a sub account, prior to commencement of Securities Exchange Board of India (SEBI) (Foreign Portfolio Investors) Regulations, 2014, holds equity shares in a company whose shares are not listed on any recognized stock exchange, and continues to hold such shares after initial public offering and listing thereof, such shares shall be subject to lock-in for the same period, if any, as is applicable to shares held by a foreign direct investor placed in similar position, under the policy of the Government of India relating to foreign direct investment for the time being in force.

(v) A RFPI may, undertake short selling as well as lending and borrowing of securities subject to such conditions as may be stipulated by the Reserve Bank of India and the SEBI from time to time.

3. Remittance of sale proceeds of shares / convertible debentures

The designated branch of an authorised dealer may allow remittance of net sale proceeds (after payment of taxes) or credit the net amount of sale proceeds of shares / convertible debentures to the foreign currency account or a Special Non-resident Rupee Account of the registered Foreign Portfolio Investor concerned.

4. The existing class of investors namely, Foreign Institutional Investor (FII) and Qualified Foreign Investor (QFI) registered with SEBI shall be eligible to continue their investment in accordance with SEBI guidelines

Implications

- Previously, the total holdings of all FIIs/ Sub-accounts of FIIs put together were to not exceed 24% of paid-up equity capital or paid up value of each series of convertible debentures. The limit of 24% could be increased up to the sectoral cap/ statutory ceiling as applicable to the Indian company by passing board resolution followed by special resolution at the general meeting. The QFI limit of 10% was over and above the limits specified in the case of FIIs, which has now been subsumed into the investment limits of FPIs.

  Now, the total holding by each RFPI shall be below10% (ten per cent) of the total paid-up equity capital or 10% (ten per cent) of the paid-up value of each series of convertible debentures issued by an Indian company and the total holdings of all RFPI put together shall not exceed 24% of paid-up equity capital or paid up value of each series of convertible debentures. The said limit of 24% will be called aggregate limit. Provided that the aggregate limit of 24% referred to above may be increased up to the sectoral cap/statutory ceiling, as applicable, by the Indian company concerned by passing a resolution by its Board of Directors followed by passing of a special resolution to that effect by its General Body.

- There has thus been a reduction in aggregate portfolio investment limits in Indian companies by FPIs.

  The framework for FPIs notified by the RBI is on the same lines as the erstwhile framework applicable in case of FIIs and sub-accounts that implement portfolio investments in India. Hence, the RBI notification should not materially impact existing FIIs and sub-accounts.

  The RBI notification states that any FII, which holds a valid certificate of registration from SEBI, shall be deemed to be a registered FPI till the expiry of the block of three years for which fees have been paid as per the SEBI (FII) Regulations, 1995.

- A QFI could previously invest only in Equity shares/ Corporate Debt – listed or to be listed and units of Mutual Funds. Further, the total shareholding of a QFI could not exceed 5% and all QFIs taken together could not exceed 10% of paid up equity capital of the company at any point of time, subject to sectoral caps. The new RFPI regulations significantly benefit QFIs as they will be permitted to invest in a larger array of Indian securities as well as enhanced investment limits.

  A QFI may continue to buy, sell or otherwise deal in securities for a period of one year from the date of commencement of Securities Exchange Board of India (SEBI) (Foreign Portfolio Investors) Regulations, 2014, or until it obtains a certificate of registration as foreign portfolio investor, whichever is earlier. Further, a QFI after registering as a RFPI shall not be eligible to invest as QFI. However, all investments made by QFI, in accordance with the regulations prior to registration as RFPI shall continue to be valid and taken into account for computation of aggregate limit.

- A registered Foreign Portfolio Investor (RFPI) may purchase, on repatriation basis, either directly from the issuer of such securities or through a registered stock broker on a recognized Stock Exchange in India the following securities, subject to the conditions specified by the RBI and SEBI from time to time:
  - dated Government securities/treasury bills;
  - listed non-convertible debentures/bonds issued by an Indian company;
  - commercial papers issued by an Indian company;
  - units of domestic mutual funds;
  - Security Receipts issued by Asset Reconstruction Companies
  - Perpetual Debt instruments
  - listed and unlisted non-convertible debentures/bonds issued by an Indian company in the infrastructure sector
  - non-convertible debentures/bonds
  - Rupee denominated bonds/ units
  - primary issues of non-convertible debentures/ bonds
  - credit enhanced bonds

- A RFPI may, undertake short selling as well as lending and borrowing of securities subject to such conditions as may be stipulated by the Reserve Bank of India and the SEBI from time to time.

- The designated branch of an authorised dealer may allow remittance of net sale proceeds (after payment of taxes) or credit the net amount of sale proceeds of shares / convertible debentures to the foreign currency account or a Special Non-resident Rupee Account of the registered Foreign Portfolio Investor concerned.

AD Category I Banks will need to ensure that the RFPIs registered with them are in compliance with the above mentioned directives as issued by RBI.

Other Key Guidelines issued by RBI and FIMMDA

S. No.	Guideline Reference	Date of Issue	Particulars	Impact
1	RBI/2013-14/516	March 13, 2014	Rupee Drawing Arrangement - Increase in trade related remittance limit	The limit of Trade transactions under the Rupee Drawing Arrangements (RDAs) has been increased from INR 200,000 to INR 500,000.
2	RBI/2013-14/525	March 19, 2014	End of Support for Windows XP	Microsoft may stop issuing updates and patches for bugs in its Windows XP operating system, leaving the systems that run on this operating system vulnerable to attacks due to the absence of Microsoft support. Banks are therefore advised to take immediate steps to implement appropriate systems and controls in this regard.
3	RBI/2013-14/532	March 25, 2014	Reporting of OTC Interest Rate Derivatives – Client Level Transactions	With effect from the week ending April 4, 2014, the weekly reporting of client IRS/FRA deals to RBI has been dispensed with. Henceforth Banks shall report such transactions only on CCIL's reporting platform. These transactions have to be reported before 12 noon the following business day on the CCIL platform.
4	RBI/2013-14/533	March 25, 2014	Foreign Portfolio Investor - investment under Portfolio Investment Scheme, Government and Corporate debt	RBI has merged the guidelines applicable to FIIs and QFIs for investment under Portfolio Investment Scheme, Government and Corporate debt. This circular mentions that all the extant provisions applicable to FIIs and QFIs will be applicable to the new class of investors known as RFPIs. This change was warranted as FIIs and QFIs will be classified under the RFPI class in accordance with the new FPI Framework as notified by SEBI, applicable from April 1, 2014.
5	RBI/2013-14/534	March 26, 2014	Inflation Indexed National Savings Securities- [IINSS-C]	The maximum limit for investment in Inflation Indexed National Savings Securities- Cumulative has been increased to INR1,000,000 per annum for eligible individual investors and INR 2,500,000 per annum for Institutions such as HUFs, Charitable Trusts, Education Endowments and similar institutions which are not pro-profit in nature. The subscription will close on March 31, 2014.
6	RBI/2013-14/544	March 28, 2014	Reporting of Cross Border Wire Transfer Report on FINnet Gateway	'Transaction Based Reporting Format' (TRF) already developed by FIU-IND and being used for reporting Cash Transaction Reports ('CTRs') and Suspicious Transaction Reports ('STRs') shall also be used for reporting the Cross Border Wire Transfers. The information may be furnished electronically in the FIN-Net module developed by FIU-IND.

7	RBI/2013-14/546	March 28,2014	Adoption of ISO 20022 Messaging Standard in RTGS System	In light of technical issues faced by RTGS participants in complying with new RTGS system requirements, RBI has extended the time for adoption of ISO 20022 messaging standard from March 31, 2014 to June 30, 2014.
8	FIMCIR/2013-14/50	March 28,2014	Valuation Of Investments As On 31st March 2014 – Revised *****	FIMMDA has issued revised guidelines for the valuation of investments along with the valuation treatment for priority sector Pass Through Certificates ('PTCs') and Tax Free Bonds. Banks should ensure compliance with the detailed guidelines available at the following link: **http://www.fimmda.org/uploads/general/Valuation_of_Investment_Circular_March2014.pdf**

* FIMMDA issues this guideline on a yearly basis for the year end valuation of securities and other financial instruments.

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