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Regulatory Impact Assessment
Banking

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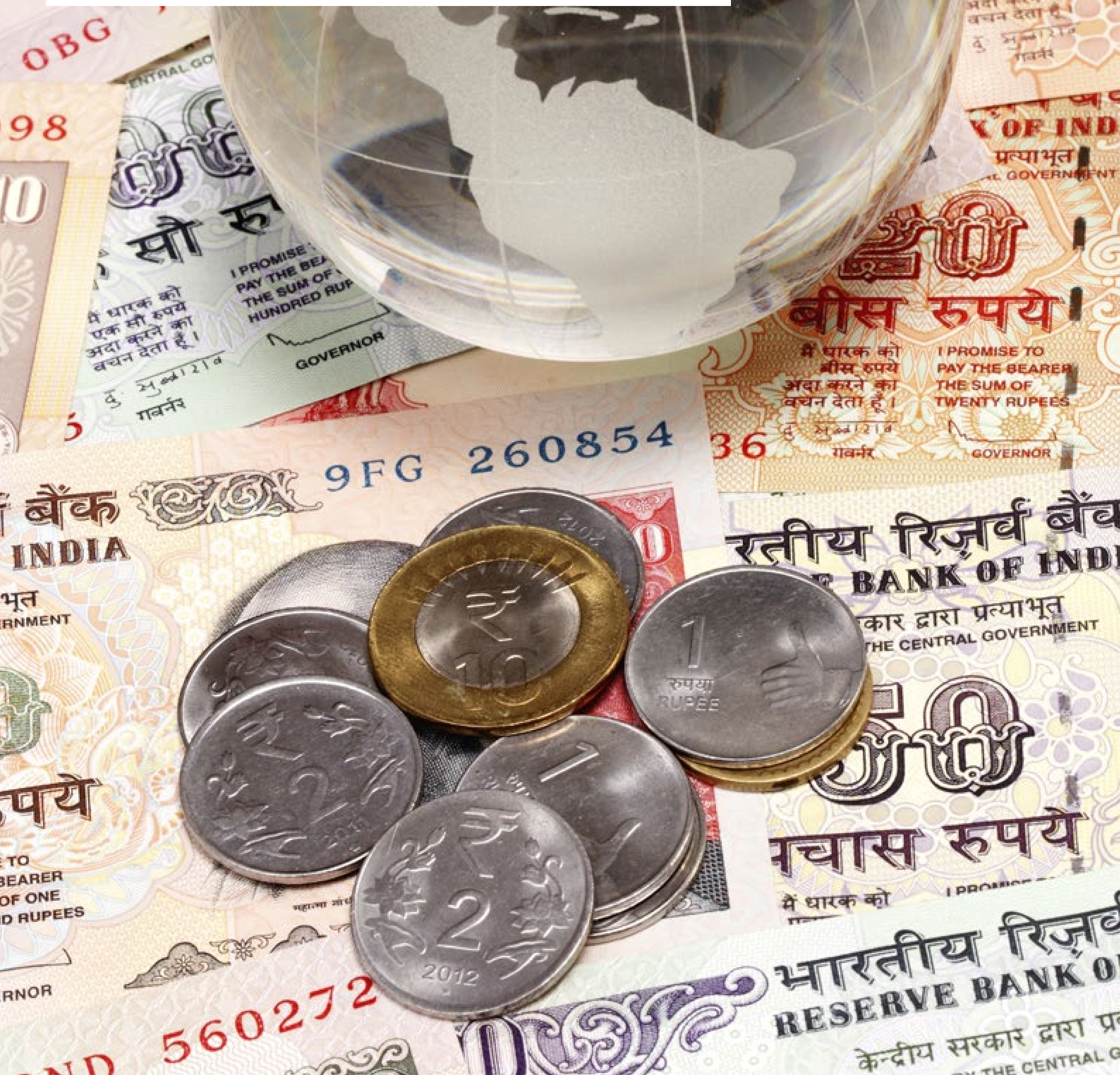

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Preface

Changes in the regulatory landscape within the Banking sector in India off late have been driven by a commitment to get our regulatory framework at par with the global standards along with meeting our domestic priorities at the same time. According to the June 2014 Financial Stability report, the Financial Stability Board's current focus has been on completing the core aspects of the four fundamental areas of the G20 led international financial regulatory reforms: Basel III, 'too big to fail', shadow banking and development of the derivatives markets. However, the need for adopting and adapting reform measures according to specific national priorities has caused the varied pace of implementation of some of the reform measures across jurisdictions

A number of guidelines issued by the RBI in June 2014 are in alignment with FSB's current focus. The final guidelines on Basel III Liquidity framework have been issued this month by the RBI. The framework is closely in tandem with the liquidity framework prescribed by the Basel Committee. In the latter part of this document, we have tried to highlight some challenges that the Indian banks might face owing to the structural differences prevalent in the Indian banking sector as against its international counterparts.

Apart from establishing the Basel III framework, FSB is also very keen on the development of the derivatives market in the country. Two major notifications in relation to the derivatives market were issued in June 2014 by the RBI with a view to expand the currency futures market in India. These notifications have brought about an alignment in the regulatory framework in the currency futures and exchange traded options markets and the over-the-counter (OTC) derivatives markets. Additionally, the Exchange Traded Currency Derivatives market has now been opened for investment by FPIs which will help to bring about an improvement in the depth and liquidity in the domestic foreign exchange market.

From a monetary policy standpoint, the RBI has decided to keep the policy repo rate under LAF and the CRR unchanged in its recently announced Monetary Policy statement released on June 3, 2014. However, the SLR requirement for commercial banks has been reduced by 50 basis points releasing about Rs.40,000 crores of liquidity in the system. The rationale behind this was to enable banks finance the potential growth in investment demand and credit requirement in the non-government sector given the government initiatives to revive business sentiment and put the economy on a recovery path. It can be noted that the RBI has taken cognizance of the financing needs of the government and decided on this figure. The RBI has also decided to reduce the liquidity provided under the Export Credit Refinance facility from 50% of eligible export credit to 32%, while compensating it with the introduction of a Special Term Repo. This move was in pursuance of the Dr. Urjit Patel committee recommendations which had called for moving away from sector-specific refinance towards a more generalized provision of system liquidity without preferential access to any particular sector or entity. Additionally, the RBI believes that this move will improve the transmission of policy impulses across the interest rate spectrum and engender efficiency in cash or treasury management.

Further, this issue features a write up where in we have deliberated over some of the recommendations proposed by the Financial Sector Legislative Reforms Commission Report and the potential impact it may have on the functioning of the RBI, if implemented. It is said that all change is not growth, as all movement is not forward. The FSLRC Committee may have to rethink its suggestion of disconcerting a structure that has been running successfully. Though the recommendations may have merit in theory, they do not seem to be very practical to implement.While time will tell on the merits on the theory, the road ahead seems challenging.

The business environment in the country is looking up after the formation of the new Government. As the business sentiment and credit intake grows, the asset quality of the banks is also expected to improve. RBI will continue to push for financial inclusion in the near future by opening up the banking sector with specialized banking license and the regulatory environment is expected to be more dynamic going forward.

Financial Sector Legislative Reforms Commission Report- Whether a step in the right direction?

Financial Sector Legislative Reforms Commission Report- Whether a step in the right direction?

The Ministry of Finance-Government of India set up Financial Sector Legislative Reforms Commission on March 24, 2011 to review and recast and rationalize the legal and institutional architecture of the Indian Financial system in the country. The commission was headed by Ex-Supreme Court judge Justice B.N.Saikrishna and had multifarious mix of expert members drawn from the varied fields of finance, economics, public administration, law etc.

The commission came out with its report in March 2013 after deliberating for two years and has given suggestions to replace the fragmented 60 plus laws and regulations governing the sector, which have plagued and have made the financial sector reforms a herculean task, by concentrating on nine components viz; Consumer Protection, Micro-prudential regulation, Resolution, Capital controls, Systemic risk, Development and redistribution, Monetary policy, Public debt management, Contracts, Trading and market abuse. The commission has also come up with a draft Indian Financial Code, which it perceives will solve the problems that are existing in the Indian Financial Sector. The commission is of the view that the law should be simple in both language and structure. The draft law consists of 460 sections.

The commission has suggested that the role of regulator should be confined within the boundaries of the law drafted by them. However while advocating for the freedom of the regulators, the commission recommends also that they should be made accountable by adopting strong reporting mechanisms and also they should come under the ambit of judicial review related to policy making aspects. The commission suggests that the present Securities Appellate Tribunal (SAT) should be transformed into Financial Sector Appellate Tribunal whose primary function will be hearing appeals filed against

- RBI for its regulatory functions,
- the unified financial agency (being set up for the implementation of the consumer protection law and micro prudential law for all financial firms other than banking and payments) and
- the decisions of the Financial Redressal Agency (set up for redressing the consumer complaints against all the financial firms).

Under the current framework, consumers can either complain to the consumer courts or to the regulator against the malpractices if any followed by the financial firms. They also have an option to file a writ petition with the Supreme Court for any policy related matters.

The commission has also looked into the possibility of the failure of the financial sector firms. The reports talks about the need to identify the systematically important firms, and the need for set up a Resolution Corporation to monitor the financial performance of all the financial firms and to intervene when the net worth of firms is near zero by closure and sale of the financial firms to other sound financial firms, thereby protecting the small consumers, either by transferring them to a solvent firm or by paying them.

The commission has given some suggestions related to Capital Controls in its report drawing most criticism from its core member group itself. The commission has suggested that the Ministry of Finance would make rules that control inbound capital flows into the country (and their repatriation) in consultation with RBI and that RBI would make the regulations about outbound capital flows (and their repatriation) in consultation with the Government. The major dissent among the members is over the use of the word consultation. In the words of Mr. K.J Udeshi “Consultation does not imply a consensus and when the RBI is in disagreement with the Government, the Government has the unquestionable powers to issue directions to the RBI. When the rule-making vests with the Government, the RBI may be consulted, but if there is a disagreement, the RBI would willy-nilly have to deal with a fait accompli and be accountable for the actions it would be required to take in the light of the Government’s decisions.” At present also the government makes the FDI policy, defines the sectors and RBI issues directives and compliance requirements with respect to the same. The RBI is entrusted with the responsibility of exchange rate management and in the absence of power to issue directives to control both inward and outward foreign exchange flow, it would make the job of RBI significantly difficult with respect to exchange rate management, leading to disruption of macro-economic environment in the country as it will try to adopt mega monetary policy measures in the absence of power to control the exchange rate dynamics. RBI has shown able capacity in that regard, by bailing out India successfully and keeping the financial sector sound during the period of financial crisis and supporting the government in taming the inflation effect and providing growth stimulus.

The commission also looked at the aspect of systemic risk. Systemic risk is about the collapse of the financial system, through which the real economy gets adversely affected. The commission suggests setting up of the Financial Stability and Development Council (FSDC) entrusted with the responsibility to collect and analyze the data related to whole financial system and identification of the systematically important financial institutions. RBI has already issued guidelines requiring banks to conduct stress test based on the BASEL committee recommendations and has also announced that from August 2015, it would declare the names of the systematically important banks. Indications from RBI, while this document goes live, suggest that 4 to 6 large domestic Banks would be included in the list. The commission has also given a suggestion for Financial Inclusion and market development. As per the commission, task of developing the market infrastructure and processes lies with the regulators, while redistribution and financial inclusion initiatives, where certain sectors, income or occupational categories are beneficiaries lies with the Government.

The framework envisaged by the commission features a strong combination of independence and accountability for RBI in its conduct of its monetary policy. As per the commission the Ministry of Finance would put out a statement defining a quantitative predominant target along with subsidy targets which are capable of being monitored. The draft code places an array of powers with RBI, however the decisions on use of these powers would be taken at an executive monetary policy committee (MPC) chaired by RBI governor. The committee would have eight members. In addition to the governor of RBI and an executive member of the board of RBI, there will be five external members, two to be appointed by the Union government in consultation with RBI governor, and three by the Union government. In addition, a representative expressing the views of the ministry of finance will participate but will not have voting rights. The ostensible reason for having so many external members is to avoid the possibility of group-think within the central bank. But the FSLRC does not consider the possibility that the five external members who would represent the government may also be victims of group-think about what the government will like to implement.

RBI acts as governments' banker and manages the debt of the government by auctioning the government securities. This function also enables RBI in controlling the money supply in the financial system, using it as a means to combat inflation as well as at times stimulant for growth by increasing the money supply in the system through Open market Operation auctions. The commission is of the view that since public debt management requires specialized investment banking capability, the same should be taken out of the purview of RBI and should be managed by an independent Public Debt Management agency having specialized capability.

Though most of the suggestions given by the commission are good, the same would need further study and thought before they can be implemented. A healthy debate is warranted on the recommendations of the commission. The viewpoints of all the interested parties should be taken into consideration. The commission has taken consumer protection into consideration and tried to write the laws from the scratch, however it would help, if existing laws are read in more detail and taken into consideration while drafting the laws. But then is it really necessary to disturb a structure and give recommendations which are true on principal but may not necessarily pass the test of practicality.

Our point of view on key RBI guidelines issued in June 2014

Capital and Provisioning Requirements for Exposures to entities with Unhedged Foreign Currency Exposure-Clarifications

RBI Circular reference: RBI/2013-14/620
Date of notification: 3 June 2014
Applicable entities: All Scheduled Commercial Banks (Excluding RRBs and LABs)

Objective

The RBI had issued guidelines for capital and provisioning requirements for exposures to entities with unhedged foreign currency exposures in January 2014. The central bank was of the view that unhedged foreign currency exposures of the banks are an area of concern not only for individual banks but also for the entire financial system. Therefore, through the above mentioned guideline, the RBI tightened norms for capital and provisioning requirements of banks having exposures to corporates which have unhedged foreign currency exposures. The guideline also suggested a methodology to be followed by banks to calculate incremental provisioning and capital requirements. However, regulation was silent on a lot of aspects, such as how would the earnings before interest and depreciation (EBID) data for provisioning be obtained for private / unlisted companies, whether the guideline is applicable for inter-bank exposures, how would the exposure be computed for non-USD currencies and so on. The RBI issued these clarifications with a view to provide clarity on such aspects.

Directives issued by RBI

This is with reference to circular DBOD.No. BP.BC. 85/21.06.200/2013-14 dated January 15, 2014 detailing guidelines on capital and provisioning requirements for exposures to entities with Unhedged Foreign Currency Exposure (UFCE). RBI had received a number of queries from banks on certain provisions of the guidelines, clarifications for which are given as under.

The implementation of guidelines is dependent on getting quality data from entities on a periodic basis. The banks have mentioned that the accuracy of the information on UFCE received from entities could be ensured if entities submit information to banks which is audited by statutory auditors. It is, therefore, advised that information on UFCE may be obtained from entities on a quarterly basis on self-certification basis, and preferably should be internally audited by the entity concerned. However, at least on an annual basis, UFCE information should be audited and certified by the statutory auditors of the entity for its authenticity. In case of exposures of overseas branches/subsidiaries, to begin with, the requirement of statutory audit may not be insisted upon.

The guidelines assess the riskiness of the unhedged foreign currency exposure of the corporate from the perspective of the volatility of USD-INR exchange rates. On requests from banks, it is clarified that Foreign Currency Exposure (FCE) in currencies other than USD may be converted into USD using the current market rates.

The guidelines have given a detailed step-by-step procedure for calculating USD-INR annualised volatility. Banks feel that annualised volatility computed by them may vary from bank to bank. Banks have requested that in order to ensure that a consistent annualised volatility is used across banking industry, RBI may mandate Foreign Exchange Dealers' Association of India (FEDAI) to publish the USD-INR annual volatility which has to be used for computation of likely loss. Accordingly, it is advised that RBI will request FEDAI to compute the volatility of USD-INR rate based on the RBI reference rate by following the provisions of the guidelines and the same may be used for computing the extent of likely loss on account of UFCE. However, till the time FEDAI starts placing this information on its website on a daily basis, banks may continue to compute the volatility figure by following the provisions of the guidelines.

UFCE guidelines require that the likely loss on account of exchange rate movements should be compared with the annual EBID as per the latest quarterly results certified by the statutory auditors. Banks have mentioned that in case of private/unlisted companies, the audited EBID may not be available on a quarterly basis. In this context, it is advised that in case of unavailability of the audited results of the last quarter, latest audited quarterly or yearly results available have to be used. The yearly EBID figure used should at least be of the last financial year. It is also clarified that the guidelines do not differentiate between limited audited results and full audited results.

The guidelines introduce incremental capital and provisioning requirements over and above present requirements. Banks have requested clarification on the amount of exposure on which incremental capital and provisioning amount has to be computed, as the exposure used for computing capital and provisions are computed differently. In this context, it is advised that incremental provisioning for UFCE should be based on the exposure amount which is used for computing standard asset provisioning and incremental capital requirements for UFCE should be based on the exposure amount which is used for computing credit risk capital requirements.

The guidelines are applicable to all entities on which the bank has taken credit exposure. Banks have requested clarification if the guidelines are applicable to inter-bank exposures also. In this context, it is clarified that inter-bank exposures may be excluded from the ambit of the UFCE guidelines.

The guidelines are applicable to all entities irrespective of the size of the entity. Banks have mentioned that computation of incremental capital and provisioning requirements on a quarterly basis for smaller entities will be operationally cumbersome. In this context, for exposures to smaller entities which are having unhedged foreign currency exposure, banks may have the option of following a standardised method which would require an incremental provisioning of 10 bps over and above extant standard asset provisioning. Banks following standardised method for smaller entities will not be required to get UFCE data from these entities and therefore will not be required to compute incremental capital and provisioning based on likely loss as a percentage of EBID in respect of these smaller entities. It is further clarified that smaller entities are those entities on which total exposure of the banking system is at INR 25 crore or less.

Standard asset provisions are presently eligible for inclusion in the Tier 2 capital within certain limits. Banks have requested to clarify if the incremental provisioning kept by following the guidelines will also be eligible for including in the Tier 2 capital in line with the present requirements. In this context, it is clarified that the incremental provision required is in addition to the present standard asset provisioning requirement. It may, therefore be treated as general provision for disclosures and inclusion in Tier 2 capital, similar to the existing treatment applicable to general provisions. Presently, for banks following standardised approach for credit risk, general provisions are admitted as Tier 2 capital up to a maximum of 1.25% of credit risk weighted assets. Under Internal Ratings Based Approach, where the total expected loss amount is less than total eligible provisions, banks may recognise the difference as Tier 2 capital up to maximum of 0.6% of credit-risk weighted assets calculated under IRB approach.

The computation of incremental capital and provisioning is dependent on the extensive data collected from entities. Banks have mentioned that it may not be possible to get the required data in a timely manner in respect of all entities on which a bank has the credit exposure. Banks have requested clarification on the course of action to be followed in respect of exposure to entities which are not able to provide required data. In this context, it is advised that in cases, where the bank is not able to get sufficient data to compute UFCE, the bank may take a conservative view and place the exposure at the last bucket which requires incremental provisioning of 80bps and a 25 per cent increase in risk weight. It would be appropriate for a bank to price the cost of compliance with the UFCE guidelines on its lending rate for the borrower as it would improve quality and timeliness of information/data.

UFCE guidelines have become effective from April 1, 2014. Some banks have mentioned that as the required provision will be computed for the first time for the April-June quarter, the entire provisioning burden will fall on the earnings of one quarter. In this context, it is advised that the additional provisioning requirement applicable for April-June 2014 quarter based on the UFCE guidelines may be distributed equally during the financial year 2014-15. However, such relaxation would not be there for capital requirements.

Implications

RBI has provided the following clarifications with respect to incremental capital and provisioning requirements:

- Data on UFCE from entities may be obtained by bank on self-certification basis at quarterly intervals. However, UFCE information needs to be audited and certified by the statutory auditor of the entity at least annually.
- Riskiness of UFCE for non USD currencies should be ascertained by converting them to USD using the current market rates.
- RBI has requested FEDAI to compute the volatility of USD-INR rate based on the RBI reference rate and the same may be used for computing the extent of likely loss on account of UFCE. However, till the time this is

implemented and FEDAI starts publishing this information on its website on a daily basis, the banks should continue to calculate the volatility figure as hitherto.

- If the audited EBID information for private/unlisted companies is not available on a quarterly basis, latest audited quarterly or yearly results should be used. The yearly EBID figure used should at least be of the last financial year.
- Incremental provisioning for UFCE should be based on the exposure amount which is used for computing standard asset provisioning and incremental capital requirements for UFCE should be based on the exposure amount which is used for computing credit risk capital requirements
- Inter-bank exposures do not come under the purview of the UFCE guidelines
- Since it is operationally cumbersome to compute incremental capital and provisioning requirements for smaller entities on a quarterly basis, banks have the option of following a standardised method wherein an incremental provisioning of 10 bps over and above extant standard asset provisioning would be required. Banks opting for this option need not get UFCE data from these entities and compute incremental provisioning and capital requirements.
- Note: Smaller entities are those entities on which total exposure of the banking system is not more than INR 25 crores.
- Incremental provisioning required as per these guidelines should be treated as general provision for disclosures and inclusion in Tier 2 capital.
- In the event that the entity to which the bank has exposure is not able to provide data for computation of UFCE, the bank should create an incremental provisioning of 80bps and increase the risk weight by 25%.
- Since the incremental provisioning will be done for the first time for the quarter ended June 2014, entire provisioning burden will fall on the earnings of one quarter. To prevent this, RBI has advised that additional provisioning requirement applicable for April-June 2014 quarter based on the UFCE guidelines may be distributed equally during the financial year 2014-15. This facility / relaxation does not apply to capital requirements.

Based on the above clarifications, the Banks will have to ensure that the processes in relation to the same have been defined within the Institutional Banking Operations and Risk teams. The governance functions within the Banks such as audit and compliance, would also need to ensure that their testing frameworks, capture the revised requirements. The Finance teams would need to rely on the information provided by the operations and risk teams for the purpose of capturing the capital and provision requirements in the finance system.

One Documentary Proof of Address - RBI further simplifies KYC Norms for Bank Accounts

RBI circular reference: RBI/2013-14/634
Date of notification: 9 June 2014
Applicable entities: All Scheduled Commercial Banks

Objective

At the 10th convocation of the National Institute of Bank Management in April, RBI governor Raghuram Rajan had said "Can we do this (KYC) better (without) compromising on security, while allowing ease of access? That is something we need to think about. We have to be innovative" in response to the poor state of banking access that the people have in the country. Taking a step towards addressing this issue, the RBI has now issued this guideline, which will enable migrant workers and employees with transferable jobs to open bank accounts with just one address proof, which can be either permanent or local. RBI aims to simplify the account opening process for individuals so as to bring more individuals under the gambit of banking. It also shows that RBI is committed to its objective of financial inclusion, as meted out in the fourth pillar of RBI's Five Pillars of Developmental Measures.

As per the current provisions of RBI with respect to opening of new bank accounts, certain documents, including address proof need to be submitted by individuals to the bank. However, there was ambiguity with respect to whether local or permanent address proof needs to be given. This guideline has been introduced with the objective of removing such ambiguity.

Directives issued by RBI

Reserve Bank has been receiving representations/references from various quarters' especially migrant workers, transferred employees, etc. regarding problems faced in submitting a proof of current/permanent address while opening a bank account. The matter has since been examined in the light of amendment to the Prevention of Money Laundering Rules (Maintenance of Records), 2005, and accordingly it has been decided to simplify the requirement of submission of 'proof of address' as follows:

Henceforth, customers may submit only one documentary proof of address (either current or permanent) while opening a bank account or while undergoing periodic updation. In case the address mentioned as per 'proof of address' undergoes a change, fresh proof of address may be submitted to the branch within a period of six months.

In case the proof of address furnished by the customer is not the local address or address where the customer is currently residing, the bank may take a declaration of the local address on which all correspondence will be made by the bank with the customer. No proof is required to be submitted for such address for correspondence/local address. This address may be verified by the bank through 'positive confirmation' such as acknowledgment of receipt of (i) letter, cheque books, ATM cards; (ii) telephonic conversation; (iii) visits; etc. In the event of change in this address due to relocation or any other reason, customers may intimate the new address for correspondence to the bank within two weeks of such a change.

Implications

Henceforth, customers may submit only one documentary proof of address (either current or permanent) while opening a bank account or while undergoing periodic updation. In case the address mentioned as per 'proof of address' undergoes a change, fresh proof of address may be submitted to the branch within a period of six months. Hence, the Banks would need to communicate the same to the customers and also evaluate whether they would want these information aspects to be built into the account opening form of the Bank.

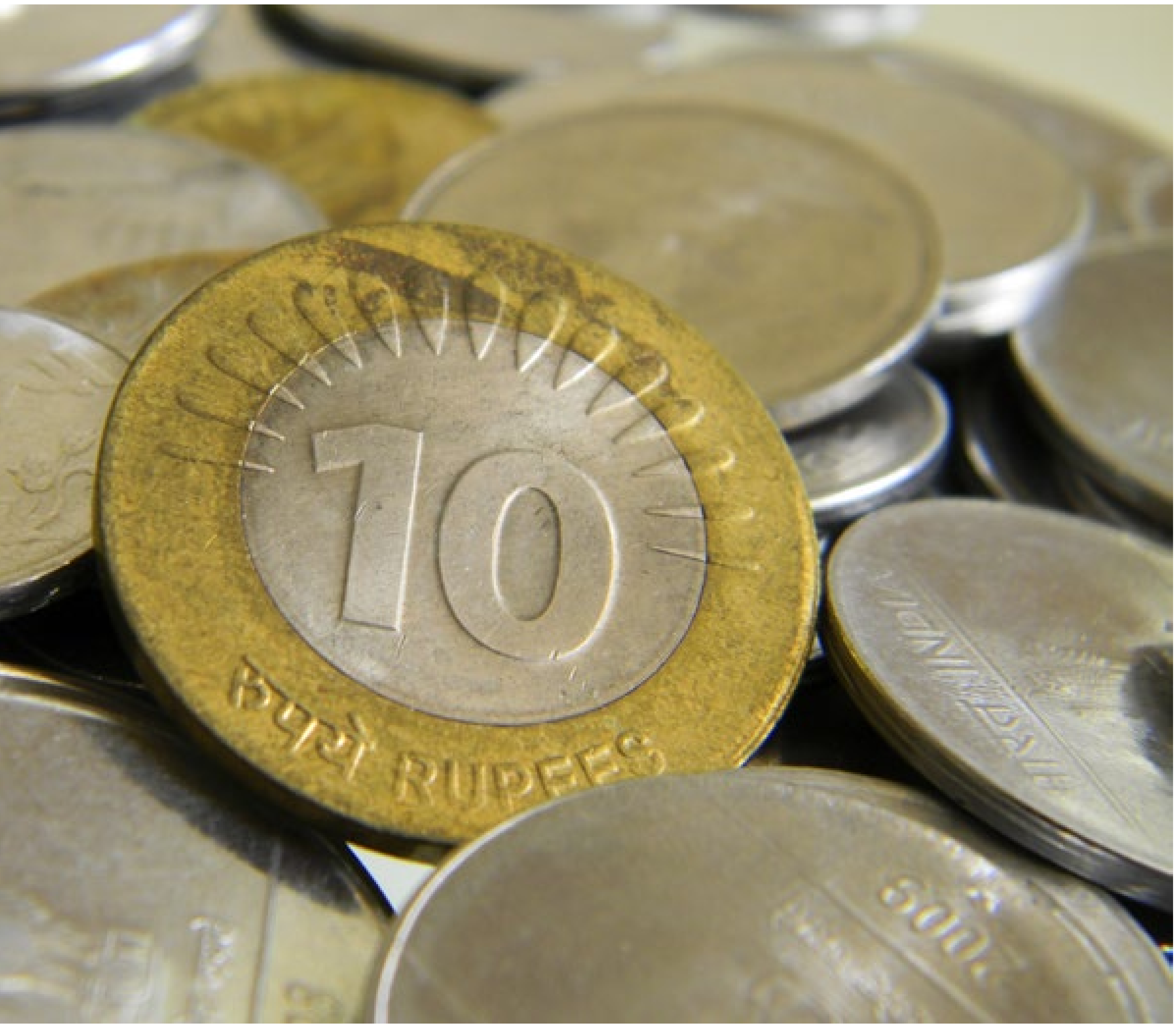
In case the proof of address furnished by the customer is not the local address or address where the customer is currently residing, the bank may take a self-declaration of the local address on which all correspondence will be made by the bank with the customer. No proof is required to be submitted for such address for correspondence/local address. The Banks would need to amend their KYC policy to capture these regulatory changes.

This address may be verified by the bank through 'positive confirmation' such as acknowledgment of receipt of

(i) letter, cheque books, ATM cards;
(ii) telephonic conversation;
(iii) visits; etc.

Banks would need to consider the option that is cost effective and the telephonic conversation seems to be a better way given the fact that the Banks could leverage the existing phone banking infrastructure to achieve the same.

In the event of change in this address due to relocation or any other reason, customers may intimate the new address for correspondence to the bank within two weeks of such a change. The Banks may consider building this requirement within the account opening form of the Bank, as an information to the customer.



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

RBI circular reference: RBI/2013-14/635
Date of notification: 9 June 2014
Applicable entities: All Scheduled Commercial Banks

Objective

As announced in the First bi-monthly Monetary Policy Statement 2014-15, the final guidelines relating to liquidity coverage and liquidity risk monitoring tools have been issued by the Reserve Bank of India. The introduction of this guideline forms a part of the global initiative taken to pave the way to improve liquidity of banks and reduce the risk of insolvency. Since RBI's release of draft guidelines on "Liquidity Risk Management and Basel III framework on Liquidity Standards" in February 2012, the Basel Committee on Banking Supervision (BCBS) has published the guidelines on "Basel III: The Liquidity coverage ratio and liquidity risk monitoring tools" in January 2013 and "Liquidity Coverage Ratio Disclosure Standards" in January 2014. Following suit, the Reserve Bank of India has published its final guidelines on the Basel III framework on liquidity standards in June 2014.

The core of this guideline is the liquidity coverage ratio (LCR) which has been introduced with the primary objective to promote resilience against potential liquidity stress situations over a short-term stress scenario (30-day time horizon) by maintaining a buffer of unencumbered high quality liquid assets. LCR is calculated as the ratio between stock of High Quality Liquid Assets (HQLA) and net cash outflows over a 30-day horizon. The LCR will be introduced in a phased manner starting with a minimum requirement of 60% from January 1, 2015 and reaching a minimum 100% from January 1, 2019. In addition, this guideline also prescribes liquidity monitoring metrics that include monitoring of funding concentration, available unencumbered assets, LCR by significant currencies and market-related data.

Directives issued by RBI

In the 'First Bi-monthly Monetary Policy Statement, 2014-15' announced on April 1, 2014, it was proposed to issue guidelines relating to Basel III LCR and Liquidity Risk Monitoring tools by end-May 2014 as the liquidity coverage ratio (LCR) stipulated by the Basel Committee becomes a standard with effect from January 1, 2015.

It may be recalled that based on the documents, 'Principles for Sound Liquidity Risk Management and Supervision' as well as 'Basel III : International Framework for Liquidity Risk Measurement, Standards and Monitoring' published by the Basel Committee on Banking Supervision (BCBS) in September 2008 and December 2010 respectively, the Reserve Bank had placed the Draft Guidelines on Liquidity Risk Management and Basel III Framework on Liquidity Standards on its website in February 2012 for comments and feedback. Taking into account the comments and feedback received, the guidelines on 'Liquidity Risk Management by Banks' were issued vide circular DBOD. BP.No.56/21.04.098/2012-13 dated November 7, 2012. It was mentioned therein that as the Basel III liquidity standards were at that time subject to an observation period / revision by the BCBS with a view to addressing any unintended consequences that the standard might have for financial markets, credit extension and economic growth, the final guidelines on Basel III liquidity framework would be issued once the BCBS revises the framework.

The BCBS has since published 'Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools' in January 2013. Further, the 'Liquidity Coverage Ratio Disclosure Standards' have been published by the BCBS in January 2014. Accordingly, the final guidelines on the LCR, Liquidity Risk Monitoring Tools and LCR Disclosure Standards are enclosed in the Annex. The LCR will be introduced in a phased manner starting with a minimum requirement of 60% from January 1, 2015 and reaching minimum 100% on January 1, 2019.

Implications

The Basel III framework was developed in response to the shortcomings in financial regulations exposed by the Global Financial Crisis. The liquidity coverage ratio, a key liquidity monitoring standard under the Basel III framework was introduced to ensure that banks worldover maintain sufficient liquidity buffers to help them tide through periods of financial stress. The Reserve Bank of India has closely aligned its definition of LCR to that prescribed by the Basel Committee. While the definition aims at strengthening the Indian banking sector's ability to survive a short-term stress scenario, we feel that there are some aspects of the definition that will prove to be challenging to Indian banks owing to the structural differences between the Indian banking sector and its international counterparts. We highlight these challenges below:

- Treatment of regulatory liquidity reserves
  The Indian banking industry conforms to two liquidity buffers: the Statutory Liquidity Ratio (SLR) – a mandatory 22.5% of a bank's net demand and time liabilities (NDTL) – and Cash Reserve Ratio (CRR) of 4%. These reserves required to be maintained by banks in India are relatively higher in proportion as compared to their international counterparts. The LCR definition allows banks to consider government securities only to a maximum of 2% of NDTL as part of the high quality liquid asset pool. A higher limit of government securities with adequate haircuts considered for inclusion in the HQLA pool would have benefited banks in India.
- Treatment of liquidity deployed in interbank money markets as part of Level 1 HQLA
  Banks temporarily deploy surplus liquidity in short-term and overnight interbank instruments such as CBLO, LAF, reverse repo, inter-bank deposits and call / notice & term money. While the definition of LCR allows for cash and excess CRR balances to be included as Level 1 assets in the HQLA pool, the instruments mentioned above are not considered in the definition of HQLA. The exclusion of excess liquidity temporarily deployed in such instruments may result in adversely impacting the development of the term structure in the money market.
- Non-inclusion of securities by banks, NBFCs and financial institutions
  The LCR definition considers marketable securities representing claims on or claims guaranteed by sovereigns, Public Sector Entities (PSEs) or multilateral development banks, assigned a 20% risk weight under the Basel II Standardised Approach for credit risk, not issued by a bank/financial institution/NBFC or any of its affiliated entities as a Level 1 HQLA. However, in India securities issued by banks, financial institutions and NBFCs are amongst the most tradable debt instruments. Accordingly, their exclusion from the HQLA pool may negatively impact the debt markets and consequently, the effectiveness of monetary policy transmission.
- Consideration of open ended mutual funds under HQLA
  The definition of HQLA under the LCR computation does not include investments in units of open ended mutual funds. Considering that this asset class is liquid, it would have been beneficial to banks if the definition allowed for inclusion of investments in open ended schemes of mutual funds in the HQLA pool.
- Challenges in classification of deposits
  The LCR definition classifies deposits into retail, small business customer and wholesale based on customer type, relationship attributes, business turnover of the depositor, etc. Most Indian banks will face a significant challenge in classifying deposits in this manner owing to the poor quality of underlying data.
- Undrawn credit lines given to financial institutions
  The LCR definition mandates that undrawn committed credit lines given to financial institutions including other banks be assigned a 100% run-off factor and that in the event that a bank has taken any credit facility from another financial institution, the amount of credit facility not be treated as an inflow in the LCR denominator. RBI has been encouraging banks to avail of committed lines of liquidity from other banks to mitigate liquidity risk. However, exclusion of such lines from the LCR computation might discourage banks to provide or take any committed lines of liquidity to or from other banks.

The LCR framework suggested by the RBI in the recent guideline will require banks to significantly invest in improving their data quality and analytics platforms, establish a sound governance structure to oversee optimal maintenance of liquidity reserves and overhaul the fund transfer pricing framework to incorporate the liquidity and funding costs arising from the maintenance of an increased liquidity buffer. The new liquidity management framework is likely to increase lending costs, reduce the level of interbank liquidity and see a major shift towards retail funding in the Indian banking sector.

Transfer of assets of Liaison Office (LO) / Branch Office (BO) / Project Office (PO) of a foreign entity either to its Wholly Owned Subsidiary (WOS) / Joint Venture (JV) / Others in India– Delegation of powers to AD Banks

RBI circular reference: RBI/2013-14/640
Date of notification: 12 June 2014
Applicable entities: Category – I Authorised Dealer Banks

Objective

The RBI had delegated its powers to allow closure of the accounts of liaison offices (Los) and branch offices (Bos) to AD-I Banks via circular issued in December, 2009. However prior approval was needed from RBI in case foreign entities setting up LO/BO and want to transfer their assets to their subsidiaries or other LO/BO or to any other entity in India. In order to provide operational flexibility to the foreign entities setting up LO/BO in India to their subsidiaries so as to provide a fast track mechanism, RBI has delegated its powers to AD-I bank via this guideline.

Directives issued by RBI

Presently ADs are delegated with powers to allow closure of the accounts of LO/BO and repatriate the surplus balances subject to submission of prescribed closure documents vide A.P (DIR Series) Circular No.24 dated December 30, 2009. The details of opening and closing POs are laid down in Circular No.37 dated November 15, 2003. With a view to smoothen the entire process of closure of LO/BO/PO, it has been decided to delegate the powers relating to transfer of assets of LO/BO/PO to AD Category-I banks subject to compliance with the following stipulations.

Such proposals will be considered only from LO/BOs who are adhering to the operational guidelines stipulated in our AP DIR Circular No.23 & 24 of December 30, 2009 such as (i) submission of AACs (up to the current financial year) at regular annual intervals with copies endorsed to DGIT (International Taxation) and (ii) obtained PAN from IT Authorities and have got registered with ROC under Companies Act 1956. Similarly, proposals from POs should conform to the guidelines issued in AP DIR Cir.No.44 dated May 17, 2005 with regard to initial reporting requirements (para.2.3) and submission of CA certified annual report indicating project status (para.2.4).
A certificate is to be submitted from the Statutory Auditor furnishing details of assets to be transferred indicating their date of acquisition, original price, depreciation till date, present book value or WDV value and sale consideration to be obtained. Statutory Auditor should also confirm that the assets were not re-valued after their initial acquisition. The sale consideration should not be more than the book value in each case.

The assets should have been acquired by the LO/BO/PO from inward remittances and no intangible assets such as good will, pre-operative expenses should be included. AD bank should scrutinise and ensure that no revenue expenses such as lease hold improvements incurred by LO/BOs are capitalised and transferred to JV/WOS.

AD bank to ensure payment of all applicable taxes while permitting transfer of assets.

Transfer of assets to be allowed by AD banks only when the foreign entity intends to close their LO/BO/PO operations in India. Subsequently, the AD banks should ensure closure of LO/BO in accordance with the stipulations indicated in para.5 (iii) of A.P (DIR Series) Circular No.24 of December 30, 2009 and para.5 of A.P (DIR Series) Circular No.37 of November 15, 2003 in respect of POs.

Credits to the bank accounts of LO/BO/PO on account of such transfer of assets will be treated as permissible credits.

The relevant documents are to be preserved separately for scrutiny by their own auditors and RBI auditors.

Implications

By issue of this guideline RBI has delegated its power to the AD-I banks to allow its foreign clients to transfer assets to its subsidiaries maintained via LO/BO subject to the compliance with the conditions mentioned in the circular. The banks will have to make the following updates in the process notes and in compliance framework:

- Banks need to ensure that proposals received from the LO/BOs are in compliance with the APDIR circular no. 23 and 24 issued December 30, 2009 and proposals received from POs are in compliance with APDIR circular no.44 dated May 17, 2005.
- Statutory auditor certificate furnishing the details of assets to be transferred indicating their date of acquisition, original price, depreciation till date, present book value or WDV value and sale consideration to be obtained. Statutory Auditor should also confirm that the assets were not re-valued after their initial acquisition. The sale consideration should not be more than the book value in each case.
- The assets should have been acquired by the LO/BO/PO from inward remittances and no intangible assets such as good will, pre-operative expenses should be included. The bank may collect a declaration from the entity for the same. Bank should scrutinise and ensure that no revenue expenses such as lease hold improvements incurred by LO/BOs are capitalised and transferred to JV/WOS.
- The bank should ensure that the client pays the applicable taxes as a result of the transfer of the assets. The bank may ask for tax challan for the tax liability payment from the entity.
- Transfer of assets to be allowed by AD banks only when the foreign entity intends to close their LO/BO/PO operations in India.
- Credits to the bank accounts of LO/BO/PO on account of such transfer of assets will be treated as permissible credits.
- The relevant documents are to be preserved separately for scrutiny by their own auditors and RBI auditors. Hence such transaction should be subject to either internal/concurrent audit.

Risk Management and Inter-bank Dealings

RBI circular reference: RBI/2013-14/649; RBI/2013-14/650
Date of notification: 20 June 2014
Applicable entities: Category – I Authorised Dealer Banks

Objective

Although India has a successful equity market, other aspect of organized financial trading are still in a nascent stage in the country. There is however a scope to leverage the existing knowledge and institutional capabilities in the equities market to improve the other areas. One such priority has been the evolution of the currency markets. Trading in Exchange Traded Currency Derivatives (ETCD) began in India in August, 2008 and the market seemed to progress well. However, in July 2013, with a view of the evolving economic and market conditions, the RBI and SEBI introduced a slew of measures which sharply restricted the exchange traded market:

- Banks were disallowed from taking proprietary positions by RBI (Risk Management and Inter-bank dealings, July 08, 2013), and
- Position limits on Exchange Traded Currency Derivatives market were brought down to USD 10 million for clients and USD 50 million for members, by SEBI. In addition, initial and extreme loss margins were increased by 100%.

On 20th June, 2014, RBI issued two major notifications with respect to participation rules for Exchange Traded Currency Derivatives. The guidelines were issued to expand the breadth of the currency derivatives markets. One notification addresses participation rules for Foreign Portfolio Investors. The other is for residents and banks. The following are the major changes induced by the guidelines:

- FPIs are allowed to invest in ETCD markets for the first time
- An alignment between the currency futures and exchange traded options markets and the over-the-counter (OTC) derivatives markets
- Proprietary trading by the AD category 1 bank in ETCD/ currency futures market is now allowed which was restricted by RBI via circular issued in July 2013.

Directives issued by RBI

RBI/2013-14/649

In terms of the present regulatory framework, domestic participants in the currency futures and exchange traded options markets are not required to have any underlying exposure while requirement of underlying is mandatory for taking a position in the over-the-counter (OTC) derivatives markets. With a view to bringing about an alignment between the two markets, henceforth domestic participants in the currency futures and exchange traded currency options will be subject to the following terms and conditions:

a. Domestic participants shall be allowed to take a long (bought) as well as short (sold) position upto USD 10 million per exchange without having to establish the existence of any underlying exposure. For the purpose of convenience, exchanges may prescribe a fixed limit for the contracts in currencies other than USD such that the limit is within the equivalent of USD 10 million.

b. Domestic participants who want to take a position exceeding USD 10 million in the ETCD market will have to establish the existence of an underlying exposure. The procedure for the same shall be as under:

For participants who are exporters or importers of goods and services, the eligible limit up to which they can take appropriate hedging positions in ETCDs will be determined as (a) higher of the (I) average of the last three years' export turnover, or (II) previous year's export turnover, in case they are exporters and (b) fifty per cent of the higher of the (I) average of their last three years' imports turnover or (II) the previous year's turnover, in case they are importers.

ii. The participants shall furnish, to the trading member of the exchange, a certificate(s) from their statutory auditors regarding the limit(s) mentioned above along with an undertaking signed by the Chief Financial Officer (CFO) to the effect that at all time, the sum total of the outstanding OTC derivative contracts and the outstanding ETCD contracts shall be corresponding to the actual exports or imports contracted, as the case may be.

iii. Based on the above certificate, a trading member can book ETCD contracts upto fifty per cent of the eligible limit [as at paragraph (i) above] on behalf of the concerned customer. If a participant wishes to take position beyond the fifty per cent of the eligible limit in the ETCD, it has to produce a certificate from the statutory auditors certifying that the sum total of the outstanding OTC derivative contracts and outstanding ETCD contracts has generally been in correspondence with the eligible limits. Based on such a certificate, the trading member can book ETCD contracts beyond fifty per cent of the limit and up to limit mentioned in paragraph (i) above.

iv. For all other participants having an underlying foreign currency exposure in respect of both current and capital account transactions as also exporters and importers who wish to access the ETCD market on the basis of contracted exposure, they will have to undertake the transaction through AD Category-I bank/s who are operating as trading members. In such cases, the responsibility for verification of the underlying exposures and ensuring that the ETCD bought/sold is in conformity with the underlying exposure and that no OTC contract has been booked against the same underlying exposure shall rest with the concerned (AD Category I bank) trading member.

v. All participants in the ETCD market, except those covered by paragraph (iv) above, will be required to submit to the concerned trading member of the exchange a half-yearly certificate from their statutory auditors as on March 31st and September 30th, within fifteen days from the said dates, to the effect that during the preceding six months, the derivative contracts entered into by the participant in the OTC and the ETCD markets put together did not exceed the actual exposure.

c. It may be noted that the onus of complying with the provisions of this circular rests with the participant and in case of any contravention the participant shall render itself liable to any action that may be warranted as per the provisions of Foreign Exchange Management Act, 1999 and those of the Regulations, Directions, etc. framed thereunder.

In terms of A.P. (DIR Series) Circular 86 dated March 1, 2013, AD Cat-I banks were not allowed to offset their positions in the ETCD market against the positions in the OTC derivatives market and in terms of A.P. (DIR Series) Circular No. 7 dated July 8, 2013 they were not allowed to carry out any proprietary trading in the ETCD market. Keeping in view the evolving market conditions, it has now been decided that:

a. AD Category-I banks may undertake proprietary trading in the ETCD market within their Net Open Position Limit (NOPL) and any limit that may be imposed by the exchanges for the purpose of risk management and preserving market integrity.

b. AD Category-I banks may also net / offset their positions in the ETCD market against the positions in the OTC derivatives markets. Keeping in view the volatility in the foreign exchange market, Reserve Bank may however stipulate a separate sub-limit of the NOPL (as a percentage thereof) exclusively for the OTC market as and when required.

Save and except as mentioned above, there will be no other upper limit on the position that can be taken by any participant, resident or non-resident, in the ETCD market. The exchanges under appropriate directions from SEBI may however impose any limit for risk management and preserving market integrity.

RBI/2013-14/650

It has now been decided to allow foreign portfolio investors (FPIs) eligible to invest in securities as laid down in Schedules 2, 5, 7 and 8 of the Foreign Exchange Management (Transfer or Issue of Security by a person resident outside India) Regulations, 2000 (FEMA 20/2000-RB dated May 3, 2000 (GSR 406 (E) dated May 3, 2000)) as amended from time to time to enter into currency futures or exchange traded currency options contracts subject to the following terms and conditions:

a. FPIs will be allowed access to the currency futures or exchange traded currency options for the purpose of hedging the currency risk arising out of the market value of their exposure to Indian debt and equity securities.

b. Such investors can participate in the currency futures / exchange traded options market through any registered / recognised trading member of the exchange concerned.

c. FPIs can take position – both long(bought) as well as short(sold) – in foreign currency up to USD 10 million or equivalent per exchange without having to establish existence of any underlying exposure. The limit will be both day-end as well as intra-day.

d. An FPI cannot take a short position beyond USD 10 million at any time and to take a long position beyond USD 10 million in any exchange, it will be required to have an underlying exposure. The onus of ensuring the existence of an underlying exposure shall rest with the FPI concerned.

e. The exchange will, however, be free to impose additional restrictions as prescribed by the Securities and Exchange Board of India (SEBI) for the purpose of risk management and fair trading.

f. The exchange/ clearing corporation will provide FPI wise information on day-end open position as well as intra-day highest position to the respective custodian banks. The custodian banks will aggregate the position of each FPI on the exchanges as well as the OTC contracts booked with them (i.e. the custodian banks) and other AD banks. If the total value of the contracts exceeds the market value of the holdings on any day, the concerned FPI shall be liable to such penal action as may be laid down by the SEBI in this regard and action as may be taken by Reserve Bank of India under the Foreign Exchange Management Act (FEMA), 1999. The designated custodian bank will be required to monitor this and bring transgressions, if any, to the notice of RBI / SEBI.

Implications

- Domestic participants are allowed to take a long (bought) as well as short (sold) position upto USD 10 million per exchange without having to establish the existence of any underlying exposure.
- Domestic participants who want to take a position exceeding USD 10 million in the ETCD market will have to establish the existence of an underlying exposure subject to the following conditions:
  - For participants who are exporters or importers of goods and services, the eligible limit up to which they can take appropriate hedging positions in ETCDs will be determined as (a) higher of the (I) average of the last three years' export turnover, or (II) previous year's export turnover, in case they are exporters and (b) fifty per cent of the higher of the (I) average of their last three years' imports turnover or (II) the previous year's turnover, in case they are importers.
  - To submit to the trading member a certificate(s) from their statutory auditors regarding the limit(s) mentioned above along with an undertaking signed by the Chief Financial Officer (CFO) to the effect that at all time, the sum total of the outstanding OTC derivative contracts and the outstanding ETCD contracts shall be corresponding to the actual exports or imports contracted, as the case may be.
  - Based on the above certificate, a trading member can book ETCD contracts upto fifty per cent of the eligible limit on behalf of the concerned customer. If a participant wishes to take position beyond the fifty per cent of the eligible limit in the ETCD, it has to produce a certificate from the statutory auditors certifying that the sum total of the outstanding OTC derivative contracts and outstanding ETCD contracts has generally been in correspondence with the eligible limits.
  - For all other participants having an underlying foreign currency exposure in respect of both current and capital account transactions as also exporters and importers who wish to access the ETCD market on the basis of contracted exposure, they will have to undertake the transaction through AD Category-I bank/s who are operating as trading members. In such cases, the responsibility for verification of the underlying exposures and ensuring that the ETCD bought/sold is in conformity with the underlying exposure and that no OTC contract has been booked against the same underlying exposure shall rest with the concerned (AD Category I bank) trading member. Hence banks will have to be extra diligent in their practice of endorsing the underlying while booking forwards or other hedging instruments with the clients accessing the ETCD as well as OTC markets.
  - All participants in the ETCD market, except those covered by paragraph above, will be required to submit to the concerned trading member of the exchange a half-yearly certificate from their statutory auditors as on March 31st and September 30th, within fifteen days from the said dates, to the effect that during the preceding six months, the derivative contracts entered into by the participant in the OTC and the ETCD markets put together did not exceed the actual exposure.
- While dealing with the FPIs, banks will have to incorporate the limits mentioned in this circular while booking the deals for the clients in ETCD/Currency futures. The banks will need to monitor the short position of the FPIs that it should exceed USD 10 million. The banks would need to obtain the underlying in case the short position exceed USD 100 million for a FPI.
- The custodian banks will aggregate the position of each FPI on the exchanges as well as the OTC contracts booked with them (i.e. the custodian banks) and other AD banks. If the total value of the contracts exceeds the market value of the holdings on any day, the concerned FPI shall be liable to such penal action as may be laid down by the SEBI in this regard and action as may be taken by Reserve Bank of India under the Foreign Exchange Management Act (FEMA), 1999. The designated custodian bank will be required to monitor this and bring transgressions, if any, to the notice of RBI / SEBI.

Financial Inclusion by Extension of Banking Services – Use of Business Correspondents

RBI circular reference: RBI/2013-14/653
Date of notification: 24 June 2014
Applicable entities: Domestic Scheduled Commercial Banks (excluding RRBs)

Objective

The RBI in its first Bi- monthly monetary policy statement, 2014-2015, had emphasized on accelerating the flow of credit to those at the bottom of the pyramid and enlargement of catchment area of the Business Correspondents (BCs), including through possible inclusion of new entities as BCs. As of now, banks normally appoint individuals, private enterprises and the likes as BCs. NBFCs had been seeking permission from the RBI to be eligible to be appointed as BCs for banks, since they were well positioned to take on the task. However, the RBI had so far been wary about possible conflicts of interest between banks and NBFCs and adoption of restrictive practices by NBFCs. However, to broaden the catchment area of the banking services and to promote financial inclusion, the Reserve Bank of India has now permitted banks to engage non-deposit taking non-banking finance companies (NBFC-ND) as BCs.

Directives issued by RBI

Paragraph 26 of the First Bi-monthly Monetary Policy Statement, 2014-15 announced on April 1, 2014 stated that "On financial inclusion, the fourth pillar, the recommendations of the Mor Committee on accelerating the flow of credit to those at the bottom of the pyramid and enlargement of catchment area of the Business Correspondents (BCs), including through possible inclusion of new entities as BCs, are under examination".

Taking into account the recommendations of the Mor Committee, the existing guidelines on appointment of Business Correspondents (BCs) have been reviewed as under:

i) **Eligible individuals/entities**

As per extant instructions, Non-banking Finance Companies (NBFCs) are not allowed to be appointed as Business Correspondents (BCs) by banks. It has been decided that banks will be permitted to engage non-deposit taking NBFCs (NBFCs-ND) as BCs, subject to the following conditions:

a) It should be ensured that there is no comingling of bank funds and those of the NBFC-ND appointed as BC.

b) There should be a specific contractual arrangement between the bank and the NBFC-ND to ensure that all possible conflicts of interest are adequately taken care of.

c) Banks should ensure that the NBFC-ND does not adopt any restrictive practice such as offering savings or remittance functions only to its own customers and forced bundling of services offered by the NBFC-ND and the bank does not take place.

ii) **Distance criteria**

In terms of our circular DBOD No BL BC 43/22.01.009/2010-11 dated September 28, 2010, with a view to ensuring adequate supervision over the operations and activities of the retail outlet/sub-agent of BCs by banks, every retail outlet/sub-agent of BC is required to be attached to and be under the oversight of a specific bank branch designated as the base branch and the distance between the place of business of a retail outlet/sub-agent of BC and the base branch should ordinarily not exceed 30 kms in rural, semi-urban and urban areas and 5 kms in metropolitan centres. In case there is a need to relax the distance criterion, the District Consultative Committee (DCC)/State level Bankers Committee (SLBC) could consider and approve relaxation on merits in respect of under-banked areas etc. With a view to providing operational flexibility to banks and in view of the technological developments in the banking sector, it has been decided to remove the stipulation regarding distance criteria. The banks should, however, while formulating the Board approved policy for engaging BCs, keep in mind the objectives of adequate oversight of the BCs as well as provision of services to customers while deciding how to modify extant distance criteria.

Banks may continue to take measures to address possible reputational risks arising out of appointment and functioning of BCs.

All other instructions regarding the BC model will remain unchanged.

Implications

Banks will be permitted to engage non-deposit taking NBFCs (NBFCs-ND) as BCs, subject to the following conditions:

a) It should be ensured that there is no comingling of bank funds and those of the NBFC-ND appointed as BC.

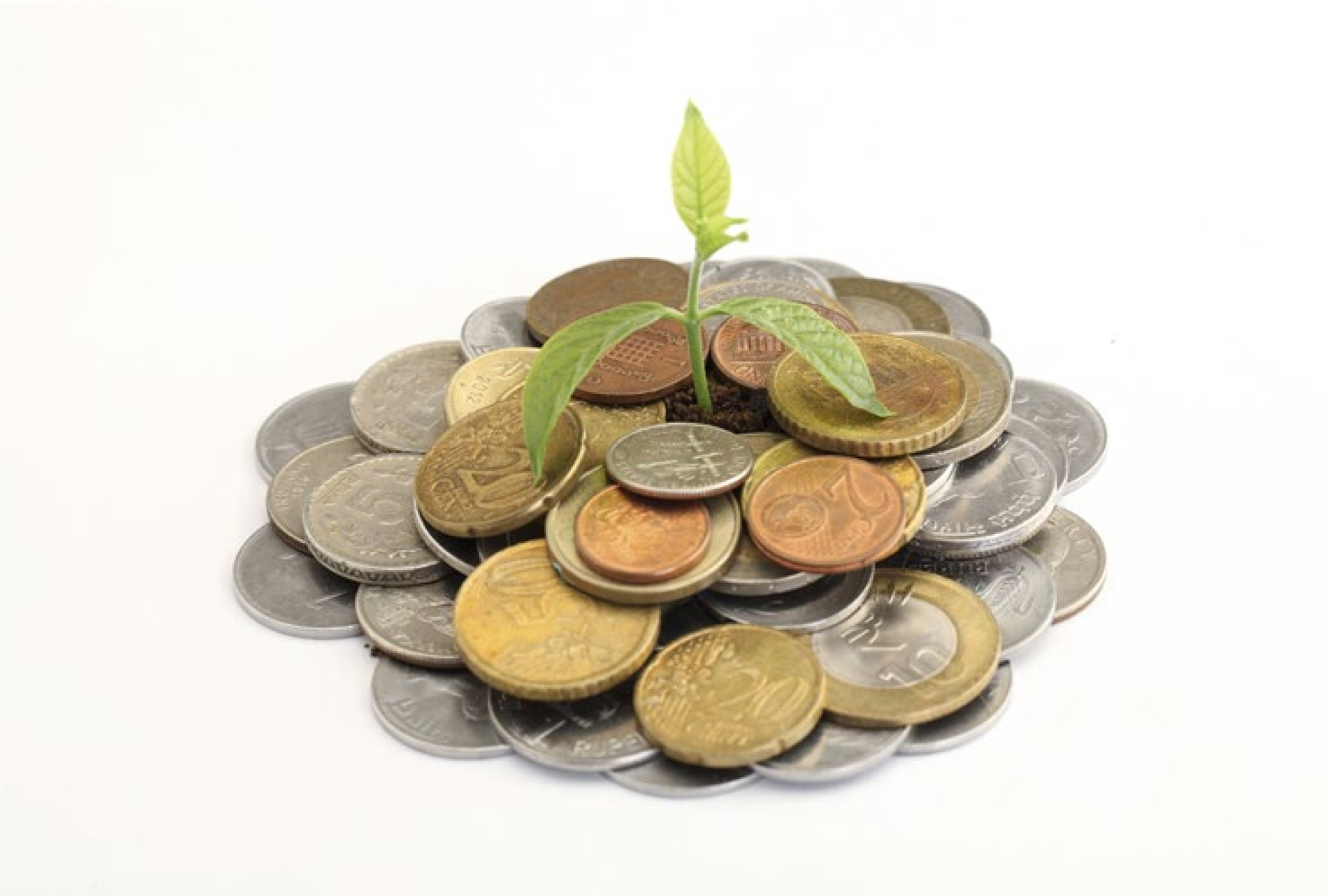
b) There should be a specific contractual arrangement between the bank and the NBFC-ND to ensure that all possible conflicts of interest are adequately taken care of. The bank and the NBFC will need to mutually discuss the possible conflict scenarios and agree upon the actions to be taken on the occurrence of the same. They may seek clarification from the RBI in case of any ambiguity.

c) Banks should ensure that the NBFC-ND does not adopt any restrictive practice such as offering savings or remittance functions only to its own customers and forced bundling of services offered by the NBFC-ND and the bank does not take place. The bank may take a declaration from the NBFC to this effect.

The internal audit department of the banks will need to monitor the flow of funds disbursed to the BCs and may also need to check the end use to ensure there is no comingling of funds. Additionally the internal audit may need to undertake activities like mystery shopping to ensure the NBFC-NDs have not adopted any restrictive practices.

The apex bank also scrapped an existing distance criterion applied to BCs with a view of operational flexibility to serve under banked areas. Under current norms, every retail outlet/sub-agent of a BC is required to be attached to and be under the oversight of a specific bank branch within a distance of 30 km in rural, semi-urban and urban areas, and 5 km in metropolitan centers. The banks have to now formulate a policy approved by the Board for engaging BCs, keeping in mind the objectives of adequate oversight of the BCs as well as provision of services to customers while deciding how to modify extant distance criteria.

Banks may however continue to take measures to address possible reputational risks arising out of appointment and functioning of BCs.



Other guidelines issued by RBI during the month

Other guidelines issued by RBI during the month

S. No.	Guideline reference	Date of issue	Particulars	Impact
1	RBI/2013-14/624	3 June 2014	Liberalised Remittance Scheme (LRS) for resident individuals-Increase in the limit from USD 75,000 to USD 125,000	AD Category –I banks may now allow remittances up to USD 125,000 per financial year, under the Scheme, for any permitted current or capital account transaction or a combination of both without end use restrictions except for prohibited foreign exchange transactions such as margin trading, lottery and the likes.
2	RBI/2013-14/642	16 June 2014	Money changing Activities - Powers of Director to impose Fine	In view of the amendment to section 13(2) of Prevention of Money Laundering (Amendment) Act, 2012 which provides for "Powers of Director to impose fine", Authorised Persons are now required to nominate a Director on their Boards as "designated Director" to ensure compliance with the same.
3	RBI/2013-14/646	18 June 2014	Annual Return on Foreign Liabilities and Assets Reporting by Indian Companies – Revised format	Presently, all Indian companies which have received FDI and/or made FDI abroad in the previous year(s) including the current year should file the annual return on Foreign Liabilities and Assets (FLA) in the soft form to the Reserve Bank by July 15 every year. In order to collect information on Indian companies' Outward Foreign Affiliated Trade Statistics (FATS) as per the multi-agency global 'Manual on Statistics of International Trade in Services', the FLA return has been modified marginally. The same is available on the RBI website (www.rbi.org.in > Forms category > FEMA Forms) along with the related FAQs (www.rbi.org.in > FAQs category > Foreign Exchange).
4	RBI/2013-2014/647	18 June, 2014	Disclosure of sector-wise advances	As per the recommendations of the Dr. Nachiket Mor committee for encouraging banks to actively manage their exposures to various sectors, including priority sector, banks are now required to disclose sector-wise advances in the 'Notes to Accounts' to the financial statements as per the format given in the Annex from the financial year 2014-15 onwards. Accordingly, the disclosure requirements contained in the Annex under item "II. Sector wise NPAs" shall be replaced by the abovementioned disclosure requirements specified.

5	RBI/2013–14/651	June 20 2014	New features in RTGS System	The new RTGS system has been running smoothly and has stabilised. It has hence been decided to enable the 'Hybrid' and 'Future value dated transaction' features in the system with effect from July 14, 2014. The details regarding operations of these two functionalities are given in Annex of the RBI circular. The Hybrid feature will be configured to do off-setting every 5 minutes. The transactions with normal priority would be settled in off-setting mechanism, with a maximum of two attempts i.e. the maximum time a transaction would be in "normal" queue is 10 minutes. If the transactions with normal priority are unable to be settled in offsetting mode within this time, the priority of the transaction would be automatically changed to "urgent". The parameter value will be set to 10%. This means that 10% of the balance in the settlement A/c would be taken for settlement in the offsetting mode. The Future Value dated Transaction would enable the customers / participants to initiate RTGS transactions 3 working days in advance for settling in RTGS on value date.
6	RBI/2013-14/6	25 June 2014	Reporting of OTC transactions on F-TRAC-Hiving off to CDSIL	Market participants are now required to report the following transactions on the reporting platform of Clearcorp Dealing Systems (India) Ltd. (CDSIL) within 15 minutes of the trade for online dissemination of market information: 1. OTC Transactions in the following instruments - Commercial Papers - Certificate of Deposits - Repo in corporate debt securities 2. Following intruments having original maturity less than one year - Commercial Papers - Certificate of Deposits - Non-convertible debentures

7	RBI/2013-14/666	27 June 2014	Data Format for Furnishing of Credit Information to Credit Information Companies and other Regulatory Measures	Banks and FIs will be required to enhance or develop reporting application to incorporate the standardized data format known as "Uniform Credit Reporting Format for consumer and commercial borrowers. Banks and FIs have to ensure updation and completeness of records submitted to CICs by putting internal controls in place to avoid non-updation of repayment information. Polices around Customer grievance redressal have to be developed. Mechanism should be developed to ensure adherence to timelines for reporting credit information to CICs. From best practices standpoint CICs should put in place a system for consumer complaint redressal. The CICs may prepare a roadmap for populating the database with historic data to improve their capabilities in the area. CICs will be required to upload a training calendar on their website for trainings pertaining to understanding the formats, importance of data reporting and how to improve data acceptance ratio.
8	RBI/2013-14/667	27 June 2014	Defaulters of Rs.1 crore and above (non-suit filed accounts) and Wilful Defaulters of Rs.25 lakhs and above (non-suit filed accounts) – Changes in reporting to Reserve Bank of India (RBI)/Credit Information Companies (CICs)	In view of the recommendations of the Aditya Puri committee (Committee to Recommend Data Format for Furnishing of Credit Information to Credit Information Companies), banks and FIs are now required to furnish the data on wilful defaulters (non-suit filed accounts) of Rs.25 lakhs for the quarter ending December 31, 2014 and above and in respect of defaulters (non-suit filed accounts) of Rs.1 crore and above for the half year ending December 31, 2014 to Credit Information Committees(CICs) and not to RBI. Thereafter, banks/FIs may continue to furnish data in respect of defaulters/wilful defaulters to CICs on a monthly or a more frequent basis. This would enable such information to be available to the Banks/FIs on a near real time basis.

Timelines for Regulatory Approvals issued by RBI

Timelines for Regulatory Approvals issued by RBI

I. Department of Banking Operations and Development

S. No.	Description of Regulatory Approval	Time required
1	Private Bank Licence- In principle approval	90 days@
2	Approval to banks for acquisition/transfer of shares of five per cent or more of paid up equity share capital of the bank	90 days
3	Approval to banks for holding non-banking assets beyond 7 and up to 12 years, in terms of Section 9 of Banking Regulation Act, 1949	15 days
4	'In principle' approval to banks for IPO, preferential issues of capital and qualified institutional placements	30 days
5	Approval to banks for redemption of subordinated debt	30 days
6	Approval to banks for establishing a subsidiary/joint venture/associate/making strategic investments in financial services companies	45 days
7	Approval to banks for offering activities such as investment advisory services, portfolio management services or venturing into stock broking, mutual funds, venture capital funds, insurance or pension management departmentally	45 days
8	Permission to banks for expanding the scope of para-banking activities of the bank/it's subsidiary	45 days
9	Permission to banks to retain investments in non-financial services companies beyond the prescribed prudential limits	45 days
10	Approval to foreign banks having their business in India for substitution of Government / approved Securities held under Section 11(2)(b) of the Banking Regulation Act, 1949	5 days
11	Approval to foreign banks having their business in India for deposit/withdrawal of Government / approved Securities held under Section 11(2)(b) of the Banking Regulation Act, 1949	5 days
12	Appointment / re-appointment of whole time directors (MD & CEO / EDs/ Jt. MDs) and Part-time Chairmen (non-whole time directors) in Private Sector Banks, including LABs	90 days
13	Appointment / re-appointment of CEOs of Foreign Banks operating in India	90 days
14	Remuneration Bonus and Employee Stock Option(ESOP) of whole time directors (MD & CEO / EDs/ Jt. MDs) and Part-time Chairmen (non-whole time directors) of Private Sector Banks, including LABs	60 days
15	Remuneration, Bonus and Employee Stock Option of CEOs of Foreign Banks operating in India	60 days
16	Opening of branches under Annual Branch Expansion Plan (ABEP) in respect of banks for which the general permission granted to open the branches in Tier 1 centres in terms of Circular DBOD.BAPD. Nos. 54 & 60/ 22.01.001/ 2013- 14 dated September 19, and October 21, 2013 has been withdrawn	30 days
17	Shifting of sole rural branches of banks outside the centre / village	15 days
18	Shifting of rural branches of banks outside the block	15 days
19	Part- shifting of a branch of bank	15 days
20	Conversion of a rural branch of bank into satellite office	15 days
21	Merger of Sole Rural / Semi Urban Branch of bank	15 days
22	Closure of Rural Branches of banks	15 days

23	Opening of branches under Annual Branch Expansion Plan (ABEP) of Local Area Banks	30 days
24	Advances to banks' Directors	90 days
25	Staff Incentive Schemes by banks for deposit mobilization	90 days
26	Authorisation for import of gold/silver by banks	60 days

@ The timeline for issue of in-principle approval for private sector bank licences commences from receipt of report from the Independent External Advisory Committee.

II. Department of Banking Supervision

S. No.	Description of Regulatory Approval	Time required
1	Approval given to banks and Financial Institutions for Statutory Central Auditors and Statutory Branch Auditors	
	i) Public Sector Banks:	
	a) Statutory Central Auditors	15 days
	b) Statutory Branch Auditors	30 days
	ii) Private Sector Banks/Foreign Banks:	
	a) Statutory Central Auditors	30 days
	b) Statutory Branch Auditors	30 days
	iii) Overseas branches of Indian Banks: Statutory Auditors	30 days
	iv) Select Financial Institutions: Statutory Auditors	21 days

III. Department of Currency Management/ Issue Department

S. No.	Description of Regulatory Approval	Time required
1	Opening of currency chests (CCs) by banks • In-principle Approval for CCs • Approval for Construction of CCs • Final Approval for CCs	Approval in Three Stages Stage I - 15 days Stage II - 15 days Stage III - Final Approval 10 days

IV. Department of Non-Banking Supervision

S. No.	Description of Regulatory Approval	Time required
1	Recognition to Self-Regulatory Organisation (SRO)	45 days
Non-Banking Finance Companies(NBFCs)		
2	Issue of Certificate of Registration (other than Securitization and Reconstruction Companies)	45 days
3	NOC to sponsor Infrastructure Debt Fund by NBFC	30 days
4	Change of control/ownership/management of an NBFC	30 days
5	Change of name	30 days
6	Shifting of company's Registered Office and request for issue of fresh Certificate of Registration	30 days
7	Issue of NOC for setting up of subsidiary/ Wholly Owned Subsidiary overseas	30 days

8	Approval for exemption from the exposure norms in cases where public funds are not accepted	30 days
9	Permission to invest in insurance companies	30 days
10	Permission to convert NBFC from Category A (Accepting Deposits) to Category B (Non-Deposit Accepting)	30 days
11	Conversion of existing NBFCs to other categories such as Core Investment Companies-Non Deposit taking-Systemically Important (CIC-ND-SI) , NBFC-Micro Finance Institutions (NBFC-MFIs), NBFC-Infrastructure Finance Companies (IFCs) and NBFC-Factors	30 days
12	Opening of branches (> 1000 in number) by NBFCs primarily into lending against gold jewellery	30 days
13	Opening of branches by NBFCs-Deposit taking	90 days
14	Issue of co-branded credit cards and pre-paid payment instruments	30 days
15	Distribution of mutual fund products	30 days

V. Department of Payment and Settlement Systems

S. No.	Description of Regulatory Approval	Time required
Financial Market Infrastructure		
1	Authorisation for Financial Market Infrastructure e.g. Central Counter Party, Trade Repository, etc.	120 days @
Retail Payment System		
2	Authorisation for Retail Payment System (including Card Payment Networks, Cross Border Money Transfer, ATM Network, Prepaid Payment Instrument Operators, White Label ATM Operators, etc.)	120 days #

@ –The proposals are put up for approval to Board for Payment and Settlement Systems (BPSS) which meets once in a quarter.

– Payment and Settlement Systems Act, 2007 [Sec 7(4)] states that RBI shall endeavour to dispose of applications for Authorisation within six months from the date of filing. The proposals get approved in the BPSS meeting that meets once in a quarter.

VI. Foreign Exchange Department

S. No.	Description of Regulatory Approval	Time required
1	a) Trade Credit under approval route	7 days
	b) Post servicing of External Commercial Borrowing (ECB)/ Foreign Currency Convertible Bond (FCCB) under Automatic and Approval route	15 days
	c) ECB/FCCB proposals under Approval route	30 days

2	NOC/approval for a. Employee Stock Ownership Plan(ESOP) not covered under general permission b. Rights Issue not covered under general permission c. Permission for investment by erstwhile Overseas Corporate Body(OCB) d. NOC for repatriation of share application money beyond 180 days e. Extension for retention of share application money beyond 180 days f. Conversion of shares from non-repatriation basis to repatriation basis g. Approval for holding share application money in foreign currency in India/ abroad h. Approval for registration of Foreign Venture Capital Investor(FVCI) i. Increase in holdings in a company beyond the limit to 24 % up to sectoral cap/ statutory ceiling j. Approval for Pledge of shares	30 days 40 days
3	Receipt of Capital Contribution	40 days
4	a)Transfer of shares from Non Resident Indian (NRI) to Non Resident(NR)	30 days
	b) Gift of shares from Resident to NRI c) Delay in reporting d) Permission for opening of escrow account by Authorised Dealer(AD) Category – I bank beyond the period of 6 months for effecting transfer of shares	60 days
5	a) Permission for establishment of new Liaison Office(LO)/ Branch Office(BO) in India under Approval Route	40 days
	b) Approval for establishing additional LO/BO in India. c) Permission for shifting LO/BO to another city.	10 days on receipt of Government approval
	d) Permission for opening LO/BO/ Project Office(PO) by entities from China, Hong Kong, Macau, Pakistan, Bangladesh, Afghanistan, Sri Lanka and Iran	10 days on receipt of Government approval
	e) Permission for establishing PO in India which require GOI approval	10 days on receipt of Government approval
6	Permission to open foreign currency account in India	60 days
7	To open foreign currency account outside India	60 days
8	To open Non Resident Ordinary(NRO) account in consultation with the MoF, GoI	30 days on receipt of Government approval
9	To receive salary outside India in foreign currency account	90 days
10	For transfer/acquisition of immovable property not covered under general permission in terms of Foreign Exchange Management Act(FEMA) 21	30 days on receipt of Government approval
11	Approvals given for proposals regarding miscellaneous external payments of permissible Current and Capital Account transactions	30 days
12	a) Investment in Overseas Joint Ventures and Wholly Owned Subsidiary(WOS) (not covered by automatic route) b) Other overseas Investment under approval route	40 days
	c) Disinvestment of shares in Overseas Joint Ventures / Subsidiaries	40 days
	d) Allotment of Unique Identification Number (UIN)	Instant online allotment

13	Issue and Renewal of fresh AD Category(Cat)-I licence	30 days
14	Issue of fresh AD Cat-II licence	90 days
15	Issue and Renewal of fresh AD Cat-III licence	30 days
16	Issue of fresh licence to conduct Money Transfer Service Scheme(MTSS) business	45 days
17	Issue of first permission to undertake Rupee Drawing Arrangement (RDA) scheme	30 days
18	Approvals to take Insurance policies from insurance companies in foreign countries.	7 days
19	Compounding of contraventions of FEMA	180 days
20	Issue/ Renewal of Money Changer's licence	40 days

VII. Financial Markets Department

S. No.	Description of Regulatory Approval	Time required
1	NDS-CALL membership	7 days *
2	Intra-day Limit (IDL) setting for RTGS members	7 days *
* The timeline indicates clear working days, excluding date of receipt of application		

VIII. Internal Debt Management Department

S. No.	Description of Regulatory Approval	Time required
Bank Primary Dealers (carrying PD business departmentally)		
1	1. Licence for Primary Dealer Business	90 days
	2. Termination of PD licence	90 days
Standalone Primary Dealers		
2	3. Licence for Primary Dealer Business	90 days
	4. Termination of PD licence	90 days
	5. Change in shareholding pattern	45 days
	6. For undertaking Portfolio Management Services	60 days
	7. To act as market makers for the Credit Default Swaps (CDS)	45 days
	8. Diversification of activities by PD	45 days
	9. Declaration of Dividend - (In case there are special reasons or difficulties for any PD in strictly adhering to the guidelines relating to Dividend, it may approach RBI in advance for an appropriate ad hoc dispensation in this regard)	45 days

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