प्रेस प्रकाशनी PRESS RELEASE

भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
वेबसाइट : www.rbi.org.in/hindi
Website : www.rbi.org.in
इ-मेल email: helpdoc@rbi.org.in

संचार विभाग, केंद्रीय कार्यालय, एस.बी.एस.मार्ग, मुंबई-400001
DEPARTMENT OF COMMUNICATION, Central Office, S.B.S.Marg, Mumbai-400001
फोन/Phone: 022-22660502

December 4, 2020

Statement on Developmental and Regulatory Policies

This Statement sets out various developmental and regulatory policy measures to i) enhance liquidity support to targeted sectors of the economy with linkages to other sectors; (ii) deepen financial markets; (iii) conserve capital among banks and NBFCs through regulatory initiatives; (iv) strengthen supervision through the audit function; (v) facilitate external trade by improving ease of doing business for exporters; and (vi) upgrade payment system services so as to expand financial inclusion and improve customer service.

I. Liquidity Measures to Revive Activity

1. On Tap TLTRO – Extension of Sectors and Synergy with ECLGS 2.0

With a view to increasing the focus of liquidity measures on revival of activity in specific sectors that have both backward and forward linkages and having multiplier effects on growth, the RBI had announced the TLTRO on Tap Scheme on October 9, 2020 which will be available up to March 31, 2021. Accordingly, it was decided to conduct on tap TLTRO with tenors of up to three years for a total amount of up to ₹1,00,000 crore at a floating rate linked to the policy repo rate with flexibility to enhance the amount and period after a review of the response to the scheme. As part of *Atmanirbhar Bharat* Package 3.0 announced on November 12, 2020, the Central Government launched Emergency Credit Line Guarantee Scheme 2.0 (ECLGS 2.0) under which the corpus of ₹3.0 lakh crore of existing ECLGS 1.0 was extended to provide 100 per cent guaranteed collateral free additional credit to entities in 26 stressed sectors identified by the Kamath Committee of RBI *plus* health care sector with credit outstanding of above ₹50 crore and up to ₹500 crore as on 29.2.2020. Accordingly, in addition to the five sectors announced under the scheme on October 21, 2020, it is now proposed to bring the 26 stressed sectors identified by the Kamath Committee within the ambit of sectors eligible under on tap TLTRO. Banks are encouraged to synergise the two schemes by availing funds from RBI under on tap TLTRO and seek guarantee under ECLGS 2.0 to provide credit support to stressed sectors. Liquidity availed by banks under the scheme should be deployed in corporate bonds, commercial papers, and non-convertible debentures issued by the entities in specific sectors over and above the outstanding level of their investments in such instruments as on September 30, 2020. The liquidity availed under the scheme can also be used to extend bank loans and advances to these sectors. Investments made by banks under this facility will be classified as held to maturity (HTM) even above the 25 per cent of total investment permitted to be included in the HTM portfolio. All exposures under this facility will also be exempted from reckoning under the large exposure framework (LEF).

2. Facilitating More Efficient Liquidity Management for Regional Rural Banks (RRBs)

The Regional Rural Banks (RRBs) are currently not permitted to access the liquidity windows of the Reserve Bank as well as the call/notice money market. Two new measures are now proposed to address these issues. (i) In order to facilitate more efficient liquidity management by the RRBs at competitive rates, it has been decided to extend the Liquidity Adjustment Facility (LAF) and Marginal Standing Facility (MSF) to RRBs. (ii) It has also been decided to permit the RRBs to participate in the Call/Notice money market, both as borrowers and lenders. Detailed instructions in this regard will be issued shortly.

II. Regulation and Supervision

The regulatory response of the Reserve Bank since the onset of the COVID-19 pandemic has focused on mitigation of the immediate impact on debt repayments by the borrowers, enabling credible resolution of stress of the borrower entities and, facilitating credit flow to the economy, while keeping a watch on the financial stability imperatives. In furtherance of the same, the following measures are being announced:

3. Dividend Distribution by Banks

In view of the COVID-19 related economic shock, it was announced in April 2020 that scheduled commercial banks (SCBs) and cooperative banks shall not make any dividend payouts from profits pertaining to the financial year ended March 31, 2020 until further instructions, which shall be reassessed based on financial results of banks for the quarter ending September 30, 2020. In view of the ongoing stress and the heightened uncertainty on account of COVID-19, it is imperative that banks continue to conserve capital to support the economy and absorb losses, if any. In order to further strengthen the banks' balance sheets while at the same time supporting lending to the real economy, it has been decided, on a review, that SCBs and cooperative banks shall not make any dividend pay-out from the profits pertaining to financial year 2019-20. Guidelines on the above measure will be issued shortly.

4. Dividend Distribution Policy for NBFCs

Unlike banks, currently there are no guidelines in place with regard to distribution of dividend by NBFCs. Keeping in view the increasing significance of NBFCs in the financial system and their interlinkages with different segments, it has been decided to formulate guidelines on dividend distribution by NBFCs. Different categories of NBFCs would be allowed to declare dividend as per a matrix of parameters, subject to a set of generic conditions. A draft circular in this regard will be issued shortly for public comments.

5. Discussion Paper on Scale-based Regulatory Framework for NBFCs

The contribution of NBFCs as a supplemental channel of credit intermediation alongside banks is well recognised. Regulatory regime governing the NBFC sector is built on the principle of proportionality such that adequate operational flexibility is available to the sector through calibrated regulatory measures. However, there are rapid developments in the last few years, which have led to significant increase in size and interconnectedness of the NBFC sector. There is, therefore, a need to review the regulatory framework in line with the changing risk profile of NBFCs. It is felt that a scale-based regulatory approach linked to the systemic risk contribution of NBFCs could be the way forward. It has been decided to carry out consultation with stakeholders before finalising the revised regulatory framework. A Discussion Paper in this regard will be issued before January 15, 2021 for public comments.

6. **Strengthening Audit Systems of Supervised Entities (SEs): (i) issuance of guidelines to large UCBs and NBFCs on adoption of Risk Based Internal Audit (RBIA); (ii) harmonisation of guidelines on appointment of statutory auditors for commercial banks, UCBs and NBFCs**

In the recent past, weakness in three lines of defence mechanism have often proved to be major fault line affecting certain banks and NBFCs adversely. These three lines of defence are: (i) the business unit itself; (ii) risk management and compliance; and (iii) internal audit. Hence, supervisory focus in strengthening the governance and assurance functions in supervised entities (SEs) continues to be a dominant theme with the RBI. One of the goals of unification of supervisory functions in RBI was to bring the standard of supervision of UCBs and NBFCs proportionately at par with that for commercial banks.

The Internal Audit function, as third line of defence, needs to be strengthened in UCBs and NBFCs. Risk Based Internal Audit (RBIA) was mandated by RBI for commercial banks in 2002. It has now been decided to issue guidelines to large UCBs and NBFCs on adoption of RBIA. This will enable the creation of independent risk focussed internal audit system.

While external statutory auditors remain outside the internal mechanisms of a supervised entity, they are often termed as fourth line of defence given the vital role they play. Recent amendment in Banking Regulation Act, 1949 bestowing certain additional responsibilities to RBI in appointment of statutory auditors in UCBs is also a pointer in that direction. Hence, it has been decided to harmonise guidelines on appointment of Statutory Auditors for commercial banks, UCBs and NBFCs. The new guidelines will enable SEs to appoint the audit firms as per their needs in a timely, transparent and effective manner. This is expected to improve the quality of financial reporting of SEs. Guidelines in this regard will be issued separately.

7. **Digital Payment Security Controls**

Going by the pre-eminent role being played by digital payment systems in India, RBI gives highest importance to the security controls around it. Now it is proposed to issue Reserve Bank of India (Digital Payment Security Controls) Directions, 2020 for regulated entities to set up a robust governance structure for such systems and implement common minimum standards of security controls for channels like internet, mobile banking, card payments, among others. While the guidelines will be technology and platform agnostic, it will create an enhanced and enabling environment for customers to use digital payment products in more safe and secure manner. Necessary guidelines will be issued separately.

8. Financial Literacy and Education

With a view to promote inclusive growth, deepen financial inclusion and protect the customers by promoting financial literacy, RBI had launched a pilot project in 2017 involving select banks and Non-Governmental Organisations (NGOs) to spread financial literacy in an innovative way through community led participatory approach in 80 blocks by setting up Centres for Financial Literacy (CFL). The project was further extended to 20 more blocks in tribal/economically backward areas in 2019. Based on the experience gained, feedback received from the stakeholders (banks and NGOs) and to promote financial literacy at grass root level in a sustainable manner, it has been decided to expand the reach of the CFLs at every block in the country in a phased manner by March 2024. Necessary guidelines to the stakeholders will be issued shortly.

9. Grievance Redress Mechanism in Banks

The Ombudsman mechanism instituted by the Reserve Bank is an alternate grievance redress mechanism. With a view to strengthen and improve the efficacy of the internal grievance redress mechanism of the banks and to provide better customer service, it has been decided to put in place a comprehensive framework comprising *inter alia* of enhanced disclosures on customer complaints by the banks, a monetary disincentive in the form of recovery of cost of redress of complaints from banks when maintainable complaints are comparatively high, and undertaking intensive review of grievance redress mechanism and supervisory action against banks that fail to improve their redress mechanism in a time bound manner. The framework would be put in place during January 2021.

III. Deepening Financial Markets

10. Review of Credit Default Swaps (CDS) Guidelines

Development of the market for credit default swaps (CDS) is *sine qua non* for the development of a liquid market for corporate bonds, especially for the bonds of lower rated issuers. The CDS guidelines were last issued in January 2013. We have been receiving feedback from market participants about the need for expanding the base of protection sellers and certain other operational constraints. The passing of the Legislation for Bilateral Netting is also expected to provide a fillip to the CDS market. Accordingly, it has been decided to review the guidelines for CDS. Revised draft Directions will be issued shortly.

11. Review of Comprehensive Guidelines on Derivatives

The Comprehensive Guidelines on Derivatives, issued in November 2011, set out *inter alia* the regulatory requirements in respect of customer suitability and appropriateness, governance arrangements and risk management for Over The Counter (OTC) derivative transactions. In line with international standards and recent changes in the regulations relating to interest rate and currency derivatives, the extant guidelines have been reviewed. The revised guidelines seek to promote efficient access to derivative markets while ensuring high standards of governance and conduct in OTC derivative business by market makers. Draft Directions are being issued today.

12. Comprehensive Review of Money Market Directions

As announced in the Statement on Developmental and Regulatory Policies on June 6, 2019, the existing Directions on money market instruments including call money, commercial paper, certificates of deposit and other debt instruments with original maturity less than one year have been comprehensively reviewed and rationalised with a view to bringing in consistency across products in terms of issuers, investors and other participants. Accordingly, three sets of draft directions on call, notice and term money markets; certificate of deposit (CDs); and commercial papers (CPs) and non-convertible debentures (NCDs) with original maturity of less than one year are being released today for public feedback.

IV. External Trade – Facilitation

In recent times, the Reserve Bank has announced several measures pertaining to external trade to enhance the export competitiveness of the country and helping the exporters and importers in coping with the challenges posed by the COVID-19 pandemic. Continuing with these efforts, it has been decided to announce further liberalisation in the extant policies governing certain export transactions. These measures, through delegation of more powers to the authorised dealer banks, will quicken the approval process, thereby improving the ease of doing business.

13. Direct Dispatch of Shipping Documents

Presently, AD Category – I banks (AD banks) are permitted to regularise cases where dispatch of shipping documents was made by the exporter directly to the consignee or his agent if the amount per export shipment is up to USD 1.0 million or its equivalent. It has been decided to remove the monetary ceiling to enable AD banks to regularise such cases, where export proceeds have been realised, irrespective of the value of export shipment.

14. "Write off" of Unrealised Export Bills

Currently, AD banks are permitted to allow write-off of unrealised export bills up to a certain limit beyond which AD bank has to approach the Reserve Bank for approval. The extant process governing write-off of unrealised export bills has been reviewed with a view to simplify the procedure, reduce the time taken for according such approvals, thereby reducing the regulatory cost. Accordingly, it has been decided to delegate the power of allowing write-off to the AD banks, without limits in specified circumstances, *viz.*, cases where overseas buyer has become insolvent or the settlement of the export proceeds to be received has happened through the Indian Embassy, Foreign Chamber of Commerce or similar organisations or if the goods had been destroyed by the Port/Customs/Health authorities in the importing country. Further, AD bank will be permitted to handle such write-off requests even if documents had been directly dispatched by the exporter.

15. Set-off of Export Receivables against Import Payables

It has been decided to permit AD banks to allow Indian companies to set-off their export receivables against import payables in respect of goods and services with their overseas group/associate companies either on net basis or gross basis through a centralised treasury arrangement or otherwise. Besides, such requests can be acceded to by AD banks in respect of the same overseas buyer/supplier if backed by a legally enforceable contract/agreement, subject to adherence to Foreign Trade Policy. Such net-off can be permitted only when the export and import legs have taken place during the same calendar year.

16. Refund of Export Proceeds

Presently, if refund of export proceeds to the overseas importer is required to be made due to poor quality of the goods exported, the same is permitted by the AD bank through whom export proceeds were received, subject to re-import of the goods. On a review, it has been decided to allow AD banks to consider refund requests without insisting on import of goods, which are perishable in nature or had been auctioned/destroyed by the Port/ Customs/ Health authorities/ any other accredited agency in the importing country subject to production of documentary evidence.

V. Payment and Settlement Systems

17. Enabling Posting of Settlement Files of Payment Systems on all days of the week

Presently, the facility of posting settlement files of payment systems, operated by authorised payment system operators, to the Reserve Bank is available only on RTGS working days. With round the clock availability of eKuber (core banking system of RBI) and RTGS (to be operationalised soon), it is proposed to allow settlement files of payment systems (*viz.*, AePS, IMPS, NETC, NFS, RuPay, UPI) to be posted to the Reserve Bank on all days of the year. This measure will reduce build-up of settlement and default risks and enable better management of funds by member banks. It will also enhance overall efficiency of the payments ecosystem. Instructions in this regard will be issued shortly.

18. Card Transactions in Contactless Mode and e-Mandates on Cards for Recurring Transactions – Enhancement of Limit

Contactless card transactions and e-mandates on cards (and UPI) for recurring transactions have enhanced customer convenience in general while benefitting from increased use of technology. These are also well-suited to make payments in a safe and secure manner, especially during the current pandemic. The recent instructions on disablement of contactless feature on cards and empowering customers to control the limits on their cards have also brought in added safety for users. To further the adoption of digital payments in a safe and secure manner, it is proposed to enhance, at the discretion of the user, the limits for contactless card transactions and e-mandates for recurring transactions through cards (and UPI) from ₹2,000 to ₹5,000 from January 1, 2021. Operational instructions will be issued separately.

(Yogesh Dayal)
Chief General Manager

Press Release : 2020-2021/721