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RESERVE BANK OF INDIA

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Statement on Developmental and Regulatory Policies Reserve Bank of India

This Statement sets out various developmental and regulatory policy measures for further improving monetary transmission; strengthening banking regulation and supervision; broadening and deepening financial markets; and, extending the reach of financial services by enhancing the efficacy of the payment and settlement systems.

I. Measures to Improve Monetary Policy Transmission

2. As indicated in the Statement on Developmental and Regulatory Policies of August 2, 2017, an internal Study Group (Chairman: Dr. Janak Raj) was constituted by the Reserve Bank to study various aspects of the marginal cost of funds based lending rate (MCLR) system from the perspective of improving monetary transmission. The Study Group, which submitted its report on September 25, 2017, observed that internal benchmarks such as the base rate/MCLR have not delivered effective transmission of monetary policy. Arbitrariness in calculating the base rate/MCLR and spreads charged over them has undermined the integrity of the interest rate setting process. The base rate/MCLR regime is also not in sync with global practices on pricing of bank loans. The Study Group has, therefore, recommended a switchover to an external benchmark in a time-bound manner. The report of the Study Group will be released on the Reserve Bank's website today to solicit comments from members of public and stakeholders. The Reserve Bank will take a final view on the recommendations of the Study Group after taking into account the feedback received until October 25, 2017.

II. Banking Regulation and Supervision

3. Reduction in the Statutory Liquidity Ratio (SLR) - As a part of the transition to a Liquidity Coverage Ratio (LCR) of 100 per cent by January 1, 2019, it is proposed to reduce the Statutory Liquidity Ratio (SLR) by 50 basis points from 20.0 percent to 19.50 per cent of banks' net demand and time liabilities (NDTL) from the fortnight commencing October 14, 2017. The ceiling on SLR securities under 'Held to Maturity' (HTM) will also be reduced from 20.25 per cent to 19.50 per cent of banks' NDTL in a phased manner, i.e., 20.00 per cent by December 31, 2017 and 19.50 per cent by March 31, 2018.

4. High-level Task Force on Public Credit Registry - As announced in the statement on developmental and regulatory policies of August 2017, a High-level Task Force on Public Credit Registry (PCR) for India has been constituted (Chairman : Shri Yeshwant M. Deosthalee). It consists of representatives from various stakeholders including the Reserve Bank, banks, non-banking financial companies (NBFCs), industry bodies, and experts in information technology. The Task Force will review the current availability of information on credit, the adequacy of existing information utilities, and identify gaps that could be filled by a PCR. It will study best international practices to determine the scope of the PCR and the type of information and credit markets that the PCR should cover. The Task Force will propose a state-of-the-art information system, allowing for existing systems to be strengthened and integrated, and suggest a modular, prioritized roadmap for developing a transparent, comprehensive and near-real-time PCR for India. The Task Force will submit its report within six months from the date of its constitution, i.e., by April 4, 2018.

5. Legal Entity Identifier (LEI) - It has been decided to require banks to make it mandatory for corporate borrowers having aggregate fund-based and non-fund based exposure of ₹ 5 crore and above from any bank to obtain Legal Entity Identifier (LEI) registration and capture the same in the Central Repository of Information on Large Credits (CRILC). This will facilitate assessment of aggregate borrowing by corporate groups, and monitoring of the financial profile of an entity/group. This requirement will be implemented in a calibrated, but time-bound manner. Necessary instructions will be issued by end-October 2017.

6. Opening of Current Accounts by Co-operative Banks - At present, non-scheduled co-operative banks (NSCBs) face problems in opening current accounts with the Reserve Bank on account of certain requirements prescribed for the purpose. As a result, co-operative banks are constrained to maintain cash reserve ratio (CRR) balances with public sector banks, state co-operative banks and district central co-operative banks, and these balances are considered as inter-bank deposits. As inter-bank deposits are subject to an overall limit of 20 per cent of a bank's total deposits as on the date of the last annual balance sheet, co-operative banks find it difficult to maintain sufficient liquid funds for the purpose of clearing/settlement, government securities transactions, remittance, and currency chest operations. Accordingly, the regulatory norms have been eased in order to enable all co-operative banks to open current accounts and maintain CRR with the Reserve Bank. All the regional offices of the Reserve Bank have been advised to issue no objection certificates for opening current accounts for all licensed co-operative banks other than those under all-inclusive directions.

7. Regulation of NBFC: Peer to Peer (P2P) - The Reserve Bank had issued a discussion paper on regulation of the peer-to-peer (P2P) lending platform as a non-banking finance company (NBFC). The P2P platform has been notified as an NBFC under section 45I (f) (iii) of the Reserve Bank of India Act, 1934 as per the gazette notification published on September 18, 2017. Consequently, the Reserve Bank is issuing regulations for NBFC (P2P) today.

8. Banking Facility for Senior Citizens and Differently abled Persons - It has been reported that banks are discouraging or turning away senior citizens and differently abled persons from availing banking facilities in branches. Notwithstanding the need to push digital transactions and use of ATMs, it is imperative to be sensitive to the requirements of senior citizens and differently abled persons. It has been decided to instruct banks to put in place explicit mechanisms for meeting the needs of such persons so that they do not feel marginalised. Ombudsmen will also be advised to pay heed to complaints in this context. Necessary instructions in this regard will be issued by end-October 2017.

III. Financial Markets

9. Framework for Authorising Electronic Trading Platforms (ETP) - Trading on electronic platforms is being encouraged across the world as it enhances pricing transparency, processing efficiency and risk control. It also enables better market surveillance and, therefore, discourages market abuse and unfair trading practices. The Reserve Bank shall put in place a framework for authorisation of electronic trading platforms (ETP) for financial market instruments regulated by the Reserve Bank. The framework shall *inter alia* include detailed eligibility criteria, technology requirements and reporting standards. While all new electronic trading platforms would be required to obtain authorisation under this framework, existing platforms would also be required to obtain *post facto* authorisation from the Reserve Bank. A draft framework will be placed on the website of the Reserve Bank for public feedback by end-October 2017.

10. Foreign Exchange Trading Platform for Retail Users - The issue of transparent and fair pricing for retail users (individuals and Micro, Small and Medium Enterprises) in the foreign exchange market has been raised in various fora and in public interactions. A mechanism is proposed for improving the pricing outcome for the “retail user” (to be defined in terms of transaction size) under which client pricing is directly determined in the market by providing customers with access to an inter-bank electronic trading platform where bid/offers from clients and Authorised Dealer banks can be matched anonymously and automatically. Such a mechanism will provide transparency while enhancing competition and lead to better pricing for customers. Direct execution of orders by the customer would bring down the risk that banks face in warehousing transactions until they can be aggregated to a market lot. Banks may charge their customers a pre-agreed flat fee towards administrative expenses, which should be publicly declared. Overall, this should bring down the total cost faced by the retail customer in the foreign exchange market. The Clearing Corporation of India Limited (CCIL) will develop access to its platform FX-CLEAR through an internet-based application. A discussion paper on the proposal will be issued by end-October 2017 for public comments.

11. Hedging Rupee (INR) Invoiced Trade Exposure: Operational Flexibility to Non-resident Importers and Exporters - In March 2017, the Reserve Bank permitted non-resident centralised treasuries of multinational companies to hedge the rupee (INR) risk on current account transactions of their Indian subsidiaries. It has been decided to broaden the scope of this initiative by permitting non-resident importers and exporters (NRIE) entering into rupee invoiced trade transactions with residents to hedge their INR exposures through their centralised treasury/group entities. This is expected to facilitate internationalisation of the rupee by encouraging rupee invoicing of trade transactions while also encouraging non-residents to hedge INR risks onshore. A circular to this effect will be issued by end-October 2017.

12. Review of Foreign Portfolio Investment (FPI) Policies - The regulatory regime for foreign portfolio investors' (FPI) debt investments in India is a part of the larger framework for capital account management. This regulatory framework has evolved over the years, influenced by capital flows and evolving macroeconomic conditions. As FPI interest in India has grown significantly, a detailed review of current regulations on FPI debt investment shall be undertaken to facilitate the process of investment and hedging by FPIs, keeping in mind macro-prudential considerations, such as ensuring the resilience of net international investment position. Regulatory changes to be finalised in consultation with the Government of India and the Securities Exchange Board of India (SEBI) will be effective from April 2018.

13. Review of Short Selling Directions - Introduction of short selling in Government Securities (G-sec) in 2005 with the objective of encouraging diversity in interest rate views has resulted in a more active G-sec market. Smoother settlement of short sale transactions is necessary for orderly functioning of the market. Towards this end, it has been decided that (i) a short seller need not borrow securities for 'notional short sales', wherein it is required to borrow the security even when the security is held in the held-for-trading/available-for-sale/held-to-maturity portfolios of banks; and, (ii) over-the-counter (OTC) G-sec transactions by FPIs may be contracted for settlement on a T+1 or T+2 basis. Directions in this regard will be issued by end-October 2017.

14. States' Market Borrowing: Adoption of Best Practices - As a part of the development of the state market borrowing programme, several best practices have been put in place. In order to further develop liquidity in the State Development Loan (SDL) market, spread the issuance of SDLs, move towards market-based pricing that is sensitive to individual state's fiscal risk metrics, and reduce uncertainties in announcement of auction results, the following measures are being proposed:

- Consolidation of state government debt will be undertaken to improve liquidity in SDLs through reissuances and buybacks, so as to even out redemption pressures and elongate residual maturity.
- SDL auctions will be conducted on a weekly basis and the auction results will be announced latest by 3.00 PM on the same day.
- High frequency data relating to finances of state governments available with the Reserve Bank will be disclosed on its website.

Final guidelines will be issued by end-October 2017. These guidelines will constitute the initial steps in overall reforms to be unveiled by the Reserve Bank over the next 12 months to reduce the currently inadequate reflection of risk asymmetries across states in the SDL market (as noted, for example, in the Fiscal Responsibility and Budget Management Review Committee Report, April 2017).

15. Retail Participation in Primary Auctions: Stock Exchanges as Aggregators -

The Central Government and the Reserve Bank have been taking various measures in the G-Sec market as a part of the overall strategy of diversifying the investor base. Modification in the Government Securities Act, 2006, introduction of odd lots in the NDS-OM secondary market, improvement in the settlement mechanism, retailing of G-Secs by primary dealers, and introduction of non-competitive bidding in primary auctions, are some of these initiatives. In line with this overall stance, the Union Budget 2016-17 announced that the Reserve Bank will facilitate retail participation in the primary and secondary markets through stock exchanges. Accordingly, after consultation with the SEBI, it is proposed that:

- specified stock exchanges, in addition to scheduled banks and primary dealers, will be permitted to act as aggregators/facilitators for retail investor bids in the non-competitive segment for the auction of dated securities and treasury bills of the Government of India.

Final guidelines will be issued by end-October 2017.

IV. Payment and Settlement

16. Master Directions on Prepaid Payment Instruments (PPIs) - The Reserve Bank had issued guidelines for issuance and operations of prepaid payment instruments (PPIs) in April 2009 in order to foster an orderly development of the PPI ecosystem. In the light of the experience gained, a draft of Master Directions on the subject was placed in the public domain for comments on March 20, 2017. The feedback received has been examined and it has been decided to rationalise the operational guidelines with a view to encouraging competition and innovation, and strengthening safety and security of operations, besides improving customer grievance redressal mechanisms. In line with the Vision for Payment and Settlement Systems in the country, the revised framework will pave the way for bringing inter-operability into usage of PPIs. Inter-operability amongst KYC compliant PPIs shall be implemented within six months of the date of issuance of the revised Master Directions, which will be issued within a week, *i.e.*, by October 11, 2017.

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