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Statement on Developmental and Regulatory Policies

This Statement sets out various developmental and regulatory policy measures for strengthening regulation and supervision; broadening and deepening of the financial markets; and enhancing customer education, protection and financial inclusion.

I. Regulation and Supervision

1. External Benchmarking of New Floating Rate Loans by Banks

The [Report of the Internal Study Group to Review the Working of the Marginal Cost of Funds based Lending Rate \(MCLR\) System](#) (Chairman: Dr. Janak Raj) released on October 4, 2017 for public feedback, had recommended the use of *external* benchmarks by banks for their floating rate loans instead of the present system of *internal* benchmarks [Prime Lending Rate (PLR), Benchmark Prime Lending Rate (BPLR), Base rate and Marginal Cost of Funds based Lending Rate (MCLR)]. As a step in that direction, it is proposed that all new floating rate personal or retail loans (housing, auto, etc.) and floating rate loans to Micro and Small Enterprises extended by banks from **April 1, 2019** shall be benchmarked to one of the following:

- Reserve Bank of India policy repo rate, or
- Government of India 91 days Treasury Bill yield produced by the Financial Benchmarks India Private Ltd (FBIL), or
- Government of India 182 days Treasury Bill yield produced by the FBIL, or
- Any other benchmark market interest rate produced by the FBIL.

The spread over the benchmark rate — to be decided wholly at banks' discretion at the inception of the loan — should remain unchanged through the life of the loan, unless the borrower's credit assessment undergoes a substantial change and as agreed upon in the loan

contract. Banks are free to offer such external benchmark linked loans to other types of borrowers as well. In order to ensure transparency, standardisation, and ease of understanding of loan products by borrowers, a bank must adopt a uniform external benchmark within a loan category; in other words, the adoption of multiple benchmarks by the same bank is not allowed within a loan category. The final guidelines will be issued by the end of December 2018.

2. Mandatory Loan Component in Working Capital Finance

With a view to promoting greater credit discipline among working capital borrowers, it was proposed in the [Statement on Developmental and Regulatory Policies announced on April 5, 2018](#) to stipulate a minimum level of 'loan component' in fund-based working capital finance for larger borrowers. Accordingly, the [draft guidelines](#) in this regard were issued on June 11, 2018 for comments of the stakeholders. Taking into account the views of the stakeholders, the final guidelines which take effect from **April 1, 2019** are being issued today.

3. Aligning Statutory Liquidity Ratio with Liquidity Coverage Ratio

As per the existing roadmap, scheduled commercial banks have to reach the minimum Liquidity Coverage Ratio (LCR) of 100 per cent by January 1, 2019. Presently, Statutory Liquidity Ratio (SLR) is 19.5 per cent of Net Demand and Time Liabilities (NDTL). Further, the assets allowed to be reckoned as Level 1 High Quality Liquid Assets (HQLAs) for the purpose of computing the LCR of banks, *inter alia*, include (a) Government securities in excess of the minimum SLR requirement; and (b) within the mandatory SLR requirement, Government securities to the extent allowed by RBI under (i) Marginal Standing Facility (MSF) [presently 2 per cent of the bank's NDTL] and (ii) Facility to Avail Liquidity for Liquidity Coverage Ratio (FALLCR) [presently 13 per cent of the bank's NDTL]. In order to align the SLR with the LCR requirement, it is proposed to reduce the SLR by 25 basis points every calendar quarter until the SLR reaches 18 per cent of NDTL. The first reduction of 25 basis points will take effect in the **quarter commencing January 2019**.

4. Board of Management in Primary (Urban) Co-operative Banks (UCBs)

The Expert Committee on licensing of new Urban Co-operative Banks (2010) under the chairmanship of Shri Y.H. Malegam had recommended, *inter alia*, that a Board of Management (BoM) be constituted in every Primary (Urban) Co-operative Bank (UCB), in addition to the Board of Directors (BoD) with a view to strengthening governance in the UCBs. This was reiterated by the High Powered Committee on Urban Co-operative Banks (Chairman: Shri R. Gandhi) constituted in January 2015.

Reserve Bank of India had released [draft guidelines](#) on constituting BoM in UCBs on June 25, 2018 inviting comments from banks and other stakeholders. It is proposed in the guidelines to require UCBs to make a provision in their bye laws for setting up a BoM. The guidelines also propose that regulatory approvals such as expansion of area of operation and opening of new branches may be allowed only for UCBs that have made such a provision in their bye laws. Taking into consideration the responses received, it is proposed to issue final guidelines by the end of December 2018.

II. Financial Markets

5. Access for Non-Residents to the Interest Rate Derivatives Market

It was proposed in the [Statement on Developmental and Regulatory Policies announced on April 5, 2018](#) that non-residents shall be given access to the Rupee Interest Rate Derivatives (IRD) market in India. The draft directions in this regard propose allowing non-residents to hedge their rupee interest rate risk flexibly using any available IRD instrument. Non-residents will also be permitted to participate in the Overnight Indexed Swap (OIS) market for non-hedging purposes, subject to a macro-prudential limit on exposure of all non-residents in terms of the interest rate risk undertaken (measured as PV01). Draft directions are being issued today for public feedback.

6. Measures to Improve Liquidity Management by Banks

Currently, the Cash Reserve Ratio (CRR) balance of banks at the end of the day is being disclosed with a lag of 2-3 days, while the details of the currency in circulation are being released with a lag of one week. In order to enable banks to forecast their liquidity requirements with a greater degree of precision, it has been decided that the Reserve Bank will provide information on daily CRR balance of the banking system to market participants on the very next day. Accordingly, the daily Money Market Operations press release will contain the CRR figure for the previous day, with effect from **December 6, 2018**.

7. Rationalisation of Borrowing and Lending Regulations under FEMA, 1999

As part of the ongoing efforts at rationalising multiple regulations framed over a period of time under FEMA, 1999, it is proposed to consolidate the regulations governing all types of borrowing and lending transactions between a person resident in India and a person resident outside India in both foreign currency and INR, in consultation with the Government. The proposed regulations, viz., Foreign Exchange Management (Borrowing or Lending) Regulations, 2018 shall subsume the existing [Notification No. FEMA. 3/2000-RB dated May](#)

[3, 2000](#), [Notification No. FEMA. 4/2000-RB dated May 3, 2000](#) and Regulation 21 of [Notification No. FEMA. 120/RB-2004 dated July 7, 2004](#), and rationalise the extant framework for external commercial borrowings and Rupee denominated bonds with a view to improving the ease of doing business. The consolidated regulation and guidelines will be issued by the end of December 2018.

III. Customer Education, Protection and Financial Inclusion

8. Ombudsman Scheme for Digital Transactions

With the digital mode for financial transactions gaining traction in the country, there is an emerging need for a dedicated, cost-free and expeditious grievance redressal mechanism for strengthening consumer confidence in this channel. It has therefore been decided to implement an ‘Ombudsman Scheme for Digital Transactions’ covering services provided by entities falling under Reserve Bank’s regulatory jurisdiction. The Scheme will be notified by the end of January 2019.

9. Framework for Limiting Customer Liability in respect of Unauthorised Electronic Payment Transactions involving Prepaid Payment Instruments

The Reserve Bank has issued instructions on limiting customer liability in respect of unauthorised electronic transactions involving banks and credit card issuing non-banking financial companies (NBFCs). As a measure of consumer protection, it has been decided to bring all customers up to the same level with regard to electronic transactions made by them and extend the benefit of limiting customer liability for unauthorised electronic transactions involving Prepaid Payment Instruments (PPIs) issued by other entities not covered by the extant guidelines on the subject. The guidelines will be issued by the end of December 2018.

10. Expert Committee on Micro, Small and Medium Enterprises

Micro, Small and Medium Enterprises (MSMEs) contribute significantly to employment, entrepreneurship and growth in the economy. They remain, by their predominantly informal nature, vulnerable to structural and cyclical shocks, at times with persistent effects. It is important to understand the economic forces and transactions costs affecting the performance of the MSMEs, while often the rehabilitation approach to the MSMEs stress has focused on deploying favourable credit terms and regulatory forbearances. To this end, an Expert Committee will be constituted by the Reserve Bank of India to identify causes and propose long-term solutions for the economic and financial sustainability of the MSME sector. The

composition of the Committee and its Terms of Reference will be finalised by the end of December 2018 and the report will be submitted by the end of June 2019.

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