**RBI NOTIFICATIONS FOR THE PERIOD JULY 2019 TO DECEMBER 2019**

***RISK IN FINANCIAL SERVICES***

**Notification Dated July 5th, 2019**

**Basel III Framework on Liquidity Standards - Liquidity Coverage Ratio (LCR), FALLCR against credit disbursed to NBFCs and HFCs**

Please refer to our DBR.BP.BC.No.34/21.04.098/2018-19 dated April 4, 2019 wherein banks have been permitted to reckon, in a phased manner, an additional 2 per cent of government securities held by them under Facility to Avail Liquidity for Liquidity Coverage Ratio (FALLCR) within the mandatory SLR requirement, as Level 1 HQLA for the purpose of computing Liquidity Coverage Ratio (LCR).

2. As per the roadmap, FALLCR is scheduled to increase by 0.50 per cent of NDTL on August 1 and December 1, 2019, respectively. It has been decided that, with immediate effect, banks will be permitted to reckon this increase in FALLCR of 1.0 per cent of the bank’s NDTL as Level 1 HQLA for computing LCR, to the extent of incremental outstanding credit to NBFCs and Housing Finance Companies (HFCs) over and above the amount of credit to NBFCs/HFCs outstanding on their books as on date. The frontloading of FALLCR of one per cent, exclusively meant for incremental exposure to NBFCs/HFCs, will form part of general FALLCR as and when the increase in FALLCR takes place as per original schedule on August 1 and December 1, 2019.

3. All other instructions as per our circular ibid remain unchanged.

**Notification Dated September 4th, 2019**

**External Benchmark Based Lending**

As you are aware, Reserve Bank had constituted an Internal Study Group (ISG) to examine various aspects of the marginal cost of funds-based lending rate (MCLR) system. The final report of the ISG was published in October 2017 for public feedback. The ISG observed that internal benchmarks such as the Base rate/MCLR have not delivered effective transmission of monetary policy. The Study Group had, therefore, recommended a switchover to an external benchmark in a time-bound manner.

2. As a step in that direction, it was announced in the fifth bi-monthly Monetary Policy Statement for 2018-19 under ‘Statement on Developmental and Regulatory Policies’ dated December 05, 2018, that all new floating rate personal or retail loans and floating rate loans to Micro and Small Enterprises extended by banks from April 1, 2019 shall be linked to external benchmarks. Subsequently, it was announced in the first bi-monthly Monetary Policy Statement for 2019-20 under ‘Statement on Developmental and Regulatory Policies’ dated April 04, 2019 to hold further consultations with stakeholders and work out an effective mechanism for transmission of rates. Based on the consultations with stakeholders, it has now been decided to link all new floating rate personal or retail loans (housing, auto, etc.) and floating rate loans to Micro and Small Enterprises extended by banks with effect from October 01, 2019 to external benchmarks.

3. Accordingly, RBI instructions contained in Master Direction on Interest Rate on Advances issued vide DBR.Dir.No.85/13.03.00/2015-16 dated March 03, 2016 are amended as under:

3.1 The existing paragraph No. 7 of the aforesaid Master Direction stands replaced as under:

(a) All new floating rate personal or retail loans (housing, auto, etc.) and floating rate loans to Micro and Small Enterprises extended by banks from October 01, 2019 shall be benchmarked to one of the following:

- Reserve Bank of India policy repo rate

- Government of India 3-Months Treasury Bill yield published by the Financial Benchmarks India Private Ltd (FBIL)

- Government of India 6-Months Treasury Bill yield published by the FBIL

- Any other benchmark market interest rate published by the FBIL.

(b) Banks are free to offer such external benchmark linked loans to other types of borrowers as well.

(c) 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.

3.2 A new paragraph No.8(e) is added to the aforesaid Master Direction as given below:

**Spread under External Benchmark**

Banks are free to decide the spread over the external benchmark. However, credit risk premium may undergo change only when borrower’s credit assessment undergoes a substantial change, as agreed upon in the loan contract. Further, other components of spread including operating cost could be altered once in three years.

3.3 A new paragraph No. 9(ii) is added to the aforesaid Master Direction as given below:

**Reset of Interest Rates under External Benchmark**

The interest rate under external benchmark shall be reset at least once in three months.

3.4 A new paragraph No. 11(ii) is added to the aforesaid Master Direction as given below:

**Transition to External Benchmark from MCLR/Base Rate/BPLR**

Existing loans and credit limits linked to the MCLR/Base Rate/BPLR shall continue till repayment or renewal, as the case may be.

**Provided** that floating rate term loans sanctioned to borrowers who, in terms of extant guidelines, are eligible to prepay a floating rate loan without pre-payment charges, shall be eligible for switchover to External Benchmark without any charges/fees, except reasonable administrative/ legal costs. The final rate charged to this category of borrowers, post switchover to external benchmark, shall be same as the rate charged for a new loan of the same category, type, tenor and amount, at the time of origination of the loan.

**Provided** that other existing borrowers shall have the option to move to External Benchmark at mutually acceptable terms.

**Provided** that the switch-over shall not be treated as a foreclosure of existing facility.

4. The existing paragraph No. 2 of the aforesaid Master Direction is applicable for Small Finance Banks and Local Area Banks and the para is amended accordingly.

5. The existing paragraph No. 3(a)(iv) of the aforesaid Master Direction stands amended as under:

External benchmark rate means the reference rate which includes:

(a) Reserve Bank of India policy Repo Rate

(b) Government of India 3-Months and 6-Months Treasury Bill yields published by Financial Benchmarks India Private Ltd (FBIL)

(c) Any other benchmark market interest rate published by FBIL.

6. Some of the sub-paragraphs of para 4(a) of the aforesaid Master Direction stands amended as given hereunder:

(ii) All floating rate loans, except those mentioned in Section 13, shall be priced with reference to the benchmark indicated in chapter III.

(iv) When the floating rate advances are linked to an internal benchmark rate, banks shall determine their actual lending rates by adding the components of spread to the internal benchmark rate.

(vi) Interest rates on fixed rate loans of tenor below 3 years shall not be less than the benchmark rate for similar tenor and shall be as per directions contained in Section 13(d)(v).

7. A new paragraph No. 4(a)(xi) is added to the aforesaid Master Direction as indicated below:

There shall be no lending below the benchmark rate for a particular maturity for all loans linked to that benchmark.

8. The existing paragraph No. 6(a)(i) of the aforesaid Master Direction stands amended as under:

All floating rate rupee loans sanctioned and renewed between July 1, 2010 and March 31, 2016 shall be priced with reference to the Base Rate which will be the internal benchmark for such purposes.

9. The existing paragraph No. 6(b)(i) of the aforesaid Master Direction stands amended as under:

All floating rate rupee loans sanctioned and renewed w.e.f. April 1, 2016 shall be priced with reference to the Marginal Cost of Funds based Lending Rate (MCLR) which will be the internal benchmark for such purposes subject to the provisions contained in paragraph 7 of this Master Direction.

10. A new paragraph No. 9 (i)(d) is added to the aforesaid Master Direction as indicated below:

The periodicity of the reset under MCLR shall correspond to the tenor/maturity of the MCLR to which the loan is linked.

11. The following part of the sub-paragraphs (a), (b), (c) of para 13 of the aforesaid Master Direction as indicated hereunder stands deleted:

“shall be exempted from being linked to Base rate/MCLR as the benchmark for determining interest rate’’

12. The following part of the paragraph 13(d) of the aforesaid Master Direction as indicated hereunder stands deleted:

“shall be priced without being linked to Base rate/MCLR as the benchmark for determining interest rate’’

**Notification Dated September 12, 2019 -**

**Large Exposures Framework**

Please refer to paragraph 7 (a) of the Statement on Developmental and Regulatory Policies dated August 7, 2019 on ‘Harmonisation of single counterparty exposure limit for banks’ exposures to a single NBFC with general single counterparty exposure limit’ **(**extract enclosed).

2. In terms of circular DBR.No.BP.BC.43/21.01.003/2018-19 dated June 03, 2019 on “Large Exposures Framework (LEF)”, banks’ exposures to a single NBFC is restricted to 15 percent of their available eligible capital base, while general single counterparty exposure limit is 20 percent, which can be extended to 25 percent by banks’ Boards under exceptional circumstances.

3. It has been decided that a bank’s exposure to a single NBFC (excluding gold loan companies) will be restricted to 20 percent of that bank’s eligible capital base. Bank finance to NBFCs predominantly engaged in lending against gold will continue to be governed by limits prescribed in circular DBOD.BP.BC.No.106/21.04.172/2011-12 dated May 18, 2012.

**Notification Dated September 12, 2019 -**

**Risk Weight for Consumer Credit except credit card receivables**

Please refer to paragraph 6 of the Statement on Developmental and Regulatory Policies dated August 7, 2019 on ‘Reduction in risk weight for consumer credit except credit card receivables’

2. As per extant instructions, consumer credit, including personal loans and credit card receivables but excluding educational loans, attracts a higher risk weight of 125 per cent or higher, if warranted by the external rating of the counterparty.

3. On a review, it has been decided to reduce the risk weight for consumer credit, including personal loans, but excluding credit card receivables, to 100%. Other stipulations remain the same.

**Notification Dated November 7 , 2019 –**

**Auction of State Development Loans: Non-Competitive Bidding Facility to Retail Investors**

Please refer to our circular IDMD.No. 954/08.03.001/2009-10 dated August 24, 2009, whereby the facility of non-competitive bidding in State Development Loans (SDLs) was allowed to retail investors.

2. As part of the overall strategy of diversifying the investor base for SDLs, Reserve Bank of India has been taking various measures to encourage participation of retail investors in SDL market including introduction of non-competitive bidding in primary auctions. In continuation of this endeavour, RBI had announced in the Statement on Developmental and Regulatory Policies released with the Second Bi-monthly Monetary Policy Statement 2019-20, on June 06, 2019, that Specified Stock Exchanges will be permitted to act as Aggregators/ Facilitators to aggregate the bids of their stockbrokers/ other retail participants and submit a single consolidated bid under the non-competitive segment of the primary auctions of State Development Loans (SDLs). In line with this announcement and as per the provisions on non-competitive bidding included in the General Notification of States on ‘Issue of State Government Securities’, it has been decided that, in addition to scheduled banks and primary dealers,

a) Specified stock exchanges will be permitted to act as Aggregators/ Facilitators.

b) These stock exchanges will submit a single consolidated non-competitive bid in the auction process and will put in place necessary processes to transfer the securities so allotted in the primary auction to their members/ clients.

c) Stock exchanges, desirous of acting as Aggregators/ Facilitators, may approach CGM, IDMD, Reserve Bank of India, with a copy of the No Objection Certificate (NOC) from SEBI, for necessary approvals.

**Notification Dated November 28, 2019 -**

**Repurchase Transactions (Repo) (Reserve Bank) Directions, 2018 - Amendment**

Please refer to Repurchase Transactions (Repo) (Reserve Bank) Directions, 2018 dated July 24, 2018.

2. Units of Debt Exchange Traded Funds (Debt ETFs) shall henceforth be eligible securities for repo transactions.

3. The Directions, revised as above, are enclosed.

N**otification Dated November 4th, 2019**

**Liquidity Risk Management Framework for Non-Banking Financial Companies and Core Investment Companies**

Please refer to paragraph 108 and paragraph 94 of Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016, and Master Direction - Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016, both dated September 1, 2016, respectively.

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11719&Mode=0>

**NOTIFICATION DATED 8TH NOVEMBER 2019- QUALIFYING ASSETS CRITERIA - REVIEW OF LIMITS**

Please refer to the Statement on Developmental and Regulatory Policies issued as part of Monetary Policy Statement dated October 4, 2019 and Para 3 of theNon-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 and the Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016 prescribing the eligibility criteria for classification under ‘Qualifying Assets’ for NBFC-MFIs.

2. Taking into consideration the important role played by MFIs in delivering credit to those in the bottom of the economic pyramid and to enable them play their assigned role in a growing economy, it has been decided to increase the household income limits for borrowers of NBFC-MFIs from the current level of ₹1,00,000 for rural areas and ₹1,60,000 for urban/semi urban areas to ₹1,25,000 and ₹2,00,000 respectively.

3. Further, the limit on total indebtedness of the borrower has been increased from ₹1,00,000 to ₹1,25,000. In light of the revision to the limit on total indebtedness, the limits on disbursal of loans have been raised from ₹60,000 for the first cycle and ₹1,00,000 for the subsequent cycles to ₹75,000 and ₹1,25,000 respectively.

4. These instructions shall come into effect from the date of this circular.

5. All other terms and conditions specified under the master directions shall remain unchanged. The master directions, ibid, are being modified accordingly.

**Notification Dated November 11, 2019 –**

**Withdrawal of exemptions granted to Housing Finance Institutions**

Please refer to Para 1 of our Master Direction – Exemptions from the provisions of RBI Act, 1934.

2. Housing Finance Institutions as defined under Clause (d) of Section 2 of the National Housing Bank Act, 1987 are currently exempt from the provisions of Chapter IIIB of Reserve Bank of India Act, 1934. On a review, it has been decided to withdraw these exemptions and make the provisions of Chapter IIIB except Section 45-IA of Reserve Bank of India Act, 1934, applicable to them.

3. Master Direction – Exemptions from the provisions of RBI Act, 1934 has been updated accordingly.

4. Necessary notification withdrawing the exemption under Section 45 NC of the RBI Act, 1934 shall be issued separately.

**NOTIFICATION DATED 6th DECEMBER 2019 - ACQUISITION OF FINANCIAL ASSETS BY ASSET RECONSTRUCTION COMPANIES FROM SPONSORS AND LENDERS**

Please refer to para 2(A) of Circular DNBS (PD) CC.No.37/SCRC/26.03.001/2013-2014 dated March 19, 2014.2. On a review, it has been decided that Asset Reconstruction Companies (ARCs) shall not acquire financial assets from the following on a bilateral basis, whatever may be the consideration:

(i) a bank/ financial institution which is the sponsor of the ARC;

(ii) a bank/ financial institution which is either a lender to the ARC or a subscriber to the fund, if any, raised by the ARC for its operations;

(iii) an entity in the group to which the ARC belongs.

However, they may participate in auctions of the financial assets provided such auctions are conducted in a transparent manner, on arm’s length basis and the prices are determined by market forces.

**Notification Dated December 31, 2019**

**Cyber Security controls for Third party ATM Switch Application Service Providers**

Please refer to para I (8) of the Statement on Developmental and Regulatory policies of the Fifth Bi-monthly Monetary Policy Statement for 2019-20 dated December 5, 2019 (extract enclosed).

2. It is observed that a number of RBI Regulated Entities (RREs) manage their ATM Switch ecosystem through shared services of third party ATM Switch Application Service Providers (ASPs). Since these service providers also have exposure to the payment system landscape, it is felt that some cyber security controls are required to be put in place by them. In view of this, the RREs shall ensure that the contract agreement signed between them and the third party ATM Switch ASP shall necessarily mandate the third party ATM Switch ASP to comply with the cyber security controls given in the **Annex** on an ongoing basis and to provide access to the RBI for on-site/off-site supervision. To this effect, the contract agreements shall be amended at the earliest or at the time of renewal, in any case not later than March 31, 2020.The list of prescribed controls is indicative but not exhaustive. It may be mentioned that these controls are applicable to the ASPs limited to the IT ecosystem (such as physical infrastructure, hardware, software, reconciliation system, network interfaces, security solutions, hardware security module, middleware, associated people, processes, systems, data, information, etc.,) providing ATM switch services as well as any other type of payment system related services to the RREs.

3. The regulatory instructions issued from time to time in terms of circulars/advisories/alerts, as applicable to the ATM switch ecosystem shall be shared with the ASPs for necessary compliance.

4. A copy of this circular may be placed before the Board of Directors in its ensuing meeting.

5. Please acknowledge receipt.

**Notification Dated December 31st, 2019**

**Extension of relaxation on the guidelines to NBFCs on securitisation transactions**

Please refer to the circular DNBR (PD)CC.No.95/03.10.001/2018-19 dated November 29, 2018 on “Relaxation on the guidelines to NBFCs on securitisation transactions” and the circular DNBR (PD)CC.No.100/03.10.001/2018-19 dated May 29, 2019 extending the dispensation till December 31, 2019.

2. On a review, it has been decided to extend the relaxation provided therein till June 30, 2020. All other instructions governing securitisation and direct assignment transactions remain unchanged.

**Notification Dated December 13, 2019**

**Liquidity Support (LS) Facility - NEFT 24 x 7**

As announced in the Statement on Developmental and Regulatory Policies dated October 4, 2019, in order to facilitate smooth settlement of NEFT transactions in the accounts of the member banks maintained with the Reserve Bank in a 24x7 environment, it has been decided to provide an additional collateralised intra-day liquidity facility, to be called Liquidity Support (LS).

2. The salient features of the scheme are as under:

a) LS facility will be available for facilitating NEFT settlements, on 24x7 basis. The LS facility will operate as per the same terms and conditions as the Intra-Day Liquidity (IDL) facility.

b) All member banks eligible for the IDL facility will be eligible to avail of the LS facility.

c) The limit for LS facility would be set by the Reserve Bank from time to time. Drawings under the LS facility shall be reckoned as part of the eligible IDL limit.

d) The margin requirement on LS facility would be similar to that of IDL facility.

e) Outstanding drawing at the end of the day under the LS facility will be automatically converted into borrowing under the Marginal Standing Facility (MSF).

f) The above MSF borrowing reversal will take place along with other LAF operations as is currently being done.

g) The extant instructions on intra-day-liquidity and reversal of IDL shall continue, as hitherto.

h) The Reserve Bank may review the facilities based on the experience gained in operationalizing the scheme.

**NOTIFICATION DATED 13th DECEMBER 2019 -**

**Provision of additional Fixed-rate Reverse Repo and MSF window**

The Reserve Bank has decided to make National Electronic Funds Transfer (NEFT) System available on 24x7 basis from December 16, 2019. To give eligible market participants more flexibility and to facilitate their liquidity management, as an interim measure, the Reserve Bank has now decided to provide an additional fixed-rate Reverse Repo and Marginal Standing Facility (MSF) window on all days as under:

The reversal of these operations will take place along with other LAF operations as is currently being done. The results of these operations will be published in the Money Market Operation (MMO) press release.

The existing fixed-rate Reverse Repo and MSF windows, available between 17:30 hrs and 19:30 hrs on RTGS working days, will continue, as hitherto.

These changes will come into effect from December 16, 2019 (Monday).

Further, it is reiterated that as advised vide RBI press release 2015-2016/1231 dated November 24, 2015, physical submission of bids for these operations would not be entertained.

These measures would be reviewed based on experience gained.

**Notification Dated December 27, 2019 -**

**Reporting of Large Exposures to Central Repository of Information on Large Credits (CRILC) - UCBs**

Please refer to paragraph 2 of the Statement on Developmental and Regulatory Policies dated December 5, 2019 on ‘Primary (Urban) Co-operative Banks - Reporting to Central Repository of Information on Large Credits (CRILC)’ (extract enclosed).

2. It has been decided that Primary (Urban) Co-operative Banks (UCBs) having total assets of ₹500 crore and above as on 31st March of the previous financial year shall report credit information, including classification of an account as Special Mention Account (SMA), on all borrowers having aggregate exposures of ₹5 crore and above with them to Central Repository of Information on Large Credits (CRILC) maintained by the Reserve Bank. Aggregate exposure shall include all fund-based and non-fund based exposure, including investment exposure on the borrower.

3. **Special Mention Account (SMA)**

Special Mention Account (SMA) is an account which is exhibiting signs of incipient stress resulting in the borrower defaulting in timely servicing of her debt obligations, though the account has not yet been classified as NPA as per the extant RBI guidelines. As early recognition of such accounts will enable banks to initiate timely remedial actions to prevent their potential slippages into NPAs, it is advised that UCBs having total assets of ₹500 crore and above as on 31st March of the previous financial year shall take necessary steps to classify loans/advances accounts as SMA, as under:

SMA Sub Categories Basis of classification Principal or interest payment or any other amount wholly or partially overdue for

SMA - O 1-30 days

SMA - 1 31- 60 days

SMA - 2 61-90 days

In case of revolving credit facilities like cash credit, the SMA sub-categories will be as follows:

SMA Sub Categories - Basis for Classification

Outstanding balance remains continuously in excess of the sanctioned limit or drawing power whichever is lower for a period of

SMA-1 31-60 days

SMA 2 61–90 days

**SMA Sub-categories.**

4. To start with, UCBs will be required to submit CRILC Report on quarterly basis with effect from December 31, 2019. Detailed operating instructions will be issued shortly by Department of Supervision, Reserve Bank of India.

5. UCBs should take utmost care about data accuracy and integrity while submitting the information /data on large credit to RBI, failing which penal action as per the provisions of the Banking Regulation Act, 1949 may be taken.

**Notification Dated December 23, 2019**

**Setting up of IFSC Banking Units (IBUs) – Permissible activities**

Please refer to RBI circular DBR.IBD.BC.14570/23.13.004/2014-15 dated April 01, 2015, as modified from time to time, setting out RBI directions relating to IFSC Banking Units (IBUs). We have received a few suggestions and queries from the stakeholders regarding operations of the IBUs and financial institutions in IFSCs. These issues have been examined and in the Fifth Bi-Monthly Monetary Policy Statement 2019-20 dated December 05, 2019, it has been announced that necessary instructions will be issued shortly. Accordingly, the directions stand further modified as follows:

**2**. *The existing paragraph No.2.6 (iv) of Annex I and II of the aforesaid circular dated April 1, 2015 is amended to read as follows:*

*“*RBI will not prescribe any limit for raising short-term liabilities from banks. However, the IBUs must maintain LCR as applicable to Indian banks on a stand-alone basis and strictly follow the liquidity risk management guidelines issued by RBI to banks. Further, NSFR will also be applicable to IBUs as and when it is applied to Indian banks*.”*

**3.** *The existing paragraph No.2.6 (v) of Annex I and II of the aforesaid circular dated April 1, 2015 is amended to read as follows:*

“IBUs are not allowed to open savings accounts. They can open foreign currency current accounts of units operating in IFSC and of non-resident institutional investors to facilitate their investment transactions. They can also open foreign currency current accounts (including escrow accounts) of their corporate borrowers subject to the provisions of FEMA 1999 and regulations issued thereunder, wherever applicable in addition to provisions of para 2.5 above. However, IBUs cannot raise liabilities from retail customers including high net worth individuals (HNIs). Also, no cheque facility will be available for holders of current accounts in the IBUs. All transactions through these accounts must be undertaken via bank transfers”.

**4.** *The existing paragraph No.2.6 (x) of Annex I and II of the aforesaid circular dated April 1, 2015 is amended to read as follows*

“Subject to para 2.5 above, the IBUs can accept fixed deposits in foreign currency of tenor less than one year from non-bank entities and can also repay fixed deposits prematurely without any time restrictions.

**5.** *The existing paragraph No.2.8 of Annex I of the aforesaid circular dated April 1, 2015 is amended on the lines of para 2.8 of Annex II to read as follows*

“The IBUs will be required to scrupulously follow "Know Your Customer (KYC)", Combating of Financing of Terrorism (CFT) and other anti-money laundering instructions issued by RBI from time to time, *including the reporting thereof, as prescribed by the Reserve Bank /other agencies in India*. IBUs are prohibited from undertaking cash transactions.”

**6.** All other terms and conditions contained in the aforementioned circular remain unchanged.

**7.** An updated copy of the RBI circular on IBU dated April 01, 2015 incorporating the amendments made hitherto is available on RBI’s website.