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Regulatory updates

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Table of contents

May 03, 2024: Banks' exposure to capital market – Issue of Irrevocable Payment Commitments (IPCs)

Tags

Custodian banks, risk mitigation measures, Capital Market Exposure (CME), margin payment, irrevocable payment commitments, settlement cycles

Summary

This circular is applicable to all Scheduled commercial banks except Regional Rural Banks (RRBs). Risk mitigation measures related to banks' exposure to capital market through issue of Irrevocable Payment Commitments (IPC) is changed because of the change in settlement cycle of equities from T+2 to T+1.

Insights

1. Custodian bank can issue IPC only if it has a clause an agreement with the client that grants bank an inalienable right over the securities to be received as pay out in any settlement. However, this clause will not be applicable in case of pre-funded transactions.
2. Custodian bank issuing IPC can take maximum intraday risk of 30 percent of settlement amount.
3. Exposure is considered for intraday in T+1 settlement cycle. But capital needs to be maintained on the outstanding capital market exposure if the exposure still remains outstanding at the end of T+1.
4. In case of cash payment for margins, the exposure will be reduced by the amount of margin paid. If the securities are used for margin payment, then the exposure will be decreased by the margin following the haircut adjustment.

Further details can be found on the RBI website:
https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12681&Mode=0

May 03, 2024: Master direction – risk management and inter-bank dealings: Amendments

Tags

Risk management; interbank dealings; reporting requirements; foreign exchange; standalone primary dealers; trade repository; amendments

Summary

The notification contains amendments to the Master Direction on Risk Management and Inter-Bank Dealings by the Reserve Bank of India. The amendments cover various aspects such as Net Overnight Open Position Limit (NOOPL), Aggregate Gap Limit (AGL), reporting requirements for foreign exchange derivative contracts, reporting of option transactions, reporting of outstanding foreign currency borrowings, reporting of Rupee accounts of non-resident banks, reporting of doubtful transactions, and reporting to the Trade Repository. The amendments also specify changes in reporting formats, submission deadlines, and reporting methods through systems like Centralized Information Management System (CIMS) and email. It is essential for financial institutions to adhere to these amendments to ensure compliance with regulatory guidelines.

Insights

1. **Incorporation of Standalone Primary Dealers (SPDs):** The amendments reflect the applicability of provisions to SPDs under the Foreign Exchange Management Act, requiring SPDs to comply with all applicable directions issued by the Reserve Bank of India 1.
2. **Enhanced Reporting Requirements:** The amendments introduce updated reporting directions for OTC foreign exchange derivative contracts and foreign currency interest rate derivative contracts to the Trade Repository. This includes specifying reporting formats, modes, timelines, and submission methods through systems like CIMS and email 1.
3. **Focus on Risk Management:** The amendments emphasize the importance of risk management by introducing limits such as Net Overnight Open Position Limit (NOOPL) and Aggregate Gap Limit (AGL) for calculating capital charge on forex risk. These limits are to be set by the boards of respective Authorized Dealers and communicated to the Reserve Bank 5.
4. **Timely Reporting:** Authorized Dealers are required to submit various reports quarterly or daily, with specific deadlines mentioned in the amendments. Reports need to be submitted through designated systems to ensure timely and accurate information flow to the Reserve Bank 8, 6.
5. **Compliance and Supervision:** The amendments aim to enhance compliance with regulatory guidelines and improve supervision of inter-bank dealings and risk management practices in the financial sector. It is crucial for financial institutions to stay updated with these amendments to maintain regulatory compliance and operational efficiency.

Further details can be found on the RBI website:
https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12680&Mode=0

May 08, 2024: Margin for derivative

Tags

Derivative contracts; margin requirements; Foreign Exchange Management Act; authorized dealers; financial markets regulation; cross-border transactions; margin posting and collection; regulatory framework

Summary

The notification issued by the Reserve Bank of India outlines regulations pertaining to margin requirements for derivative contracts. It applies to Authorized Dealer Category-I banks and Authorized Dealer Category – III Standalone Primary Dealers. Key points include the permission for Authorized Dealers to post and collect margin for permitted derivative contracts with entities outside India, in various forms such as currencies and debt securities. There is also an option for compliance with foreign jurisdiction margin requirements. Authorized Dealer Category-I banks must maintain separate accounts for margin transactions with persons resident outside India. The directions are effective immediately, superseding previous circulars.

Insights

The notification provides a deeper understanding of the regulatory framework, operational considerations, and compliance requirements related to margin for derivative contracts as per the guidelines set forth by the Reserve Bank of India.

1. **Applicability:** The directions apply to specific entities, namely Authorized Dealer Category-I (AD Cat-I) banks and Authorized Dealer Category – III Standalone Primary Dealers (AD Cat-III SPDs), emphasizing the targeted scope of the regulations.
2. **Margin Posting and Collection:** Authorized Dealers are permitted to post and collect margin for permitted derivative contracts with entities outside India, both within India and internationally, showcasing the flexibility provided to financial institutions in managing margin requirements.
3. **Acceptable Forms of Margin:** The document specifies the acceptable forms of margin, including various currencies, debt securities issued by governments, and specific credit-rated instruments, outlining the diverse options available for meeting margin obligations.
4. **Compliance Options:** Authorized Dealers have the option to comply with margin requirements of foreign jurisdictions for certain derivative transactions, reflecting the consideration for global regulatory alignment and facilitating cross-border transactions.
5. **Account Maintenance:** Authorized Dealer Category-I banks are mandated to maintain separate accounts for persons resident outside India for margin-related transactions, underscoring the importance of segregation and transparency in handling margin requirements.
6. **Immediate Implementation:** The directions come into force with immediate effect, signaling the urgency and importance of adhering to the updated margin requirements outlined by the Reserve Bank of India.

Further details can be found on the RBI website:
https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12683&Mode=0

May 08, 2024: Master direction – Reserve Bank of India (margining for non-centrally cleared OTC derivatives) directions, 2024

Tags

Non-centrally cleared OTC derivatives, margin exchange, variation margin, initial margin, covered entities, foreign jurisdictions

Summary

This master direction is applicable to all the eligible market participants. This master direction is regarding margining for non-centrally cleared over-the-counter (OTC) derivative transaction in which covered entities are engaged. The calculation of margin requirements can be done using either a standardized method or a quantitative portfolio margin model.

Insights

1. Margin exchange requirement: Margin exchange requirements have been outlined for non-centrally cleared OTC derivatives. Variation margin should be exchanged on aggregate net basis. However initial margin needs to be exchanged on gross basis without any netting.
2. Assessment of foreign jurisdiction: Covered entities can make decisions on comparability of margin requirements for cross border derivative transactions based on following principles.
   a) Membership in the BCBS-IOSCO Working Group
   b) Alignment with BCBS and IOSCO Policy Frameworks
   c) Legally Enforceable Netting Framework
3. Dispute resolution: Counterparties must establish appropriate dispute resolution policies for NCCD transactions, including determining discrepancies, escalating disputes to senior management, and ensuring non-disputed amounts are exchanged first. In case of margin disputes, counterparties must initiate dispute resolution protocols and exchange the remaining margin amount promptly.

Further details can be found on the RBI website:
https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12682&Mode=0

May 10, 2024: Foreign Exchange Management (deposit) (Fourth Amendment) Regulations, 2024

Summary

A person residing outside India can open, hold, and maintain interest bearing accounts in Indian Rupee or foreign currency with an authorized dealer in India. This account will be used for posting and collecting margins for derivative contracts.

Further details can be found on the RBI website:
https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12684&Mode=0

May 10, 2024: Formation of new district in the State of Assam – Assignment of Lead Bank responsibility

Summary

The notification informs about the formation of a new district in Assam, viz., Biswanath (district working code- 407) as notified by the Government of Assam vide Gazette Notification ECF.No.367433/29 dated September 07, 2023. It also states that Indian Bank has been assigned to act as the Lead Bank of the new district.

Further details can be found on the RBI website:
https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12685&Mode=0

May 21, 2024: Issuance of partly paid units to persons resident outside India by investment vehicles under Foreign Exchange Management (Non-debt Instruments) Rules, 2019

Tags

Authorized Dealer Category – I banks, alternative investment funds, foreign exchange management act

Summary

This circular is applicable to all authorized dealer category – 1 banks. The circular highlights the key points for issuing partly paid shares to persons resident outside India by Alternative Investment Funds under Foreign Exchange Management rules.

Insights

1. Under Foreign Exchange Management Act, partly paid shares issued by the Alternative Investment Funds to the person residing outside India has to go through compounding.
2. Authorized Dealer Category-I banks need to ensure certain administrative actions are done before approaching RBI for compounding, such as
    a) The issuance of this partly paid shares by AIF needs to be reported to RBI through Foreign Investment Reporting and Management System (FIRMS) Portal.
    b) Conditional acknowledgement needs to be issued for this reporting to RBI.

Further details can be found on the RBI website:
https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12686&Mode=0

May 27, 2024: Instructions on money changing activities

Tags

Money changing activities ; Full Fledged Money Changers (FFMCs) ; Authorized Dealers (ADs) ; foreign currency balances ; compliance regulations ; Foreign Exchange Management Act ; audit requirements; FED Master Direction

Summary

The Reserve Bank of India has issued instructions on Money Changing Activities, emphasizing that Full Fledged Money Changers (FFMCs) and non-bank Authorized Dealers (ADs) Category-II should maintain reasonable levels of foreign currency balances to prevent idle balances. Starting from July 1, 2024, FFMCs/ADs must ensure that at least 75% of the value of foreign currency notes purchased from other entities is sold to the public for permitted purposes on a quarterly basis. Additionally, FFMCs/ADs Category-II are required to submit their annual audited balance sheet to the RBI's Regional Office by October 31 of the relevant year. These directives are issued under the Foreign Exchange Management Act, 1999, and are crucial for compliance and efficient money changing operations.

Insights

1. FFMCs and non-bank ADs Category-II must maintain reasonable levels of foreign currency balances to prevent idle balances.
2. Starting from July 1, 2024, FFMCs/ADs must ensure that at least 75% of the value of foreign currency notes purchased from other entities is sold to the public on a quarterly basis.
3. FFMCs/ADs Category-II are required to submit their annual audited balance sheet to the RBI's Regional Office by October 31 of the relevant year.
4. Compliance with the directives under the Foreign Exchange Management Act, 1999, is essential for FFMCs and ADs to operate legally and efficiently.
5. The FED Master Direction No.3 is being updated to reflect these changes, indicating the importance of staying current with regulatory updates.

Further details can be found on the RBI website:
https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12689&Mode=0

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