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Regulatory Updates

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August 29, 2024: Interest Equalization Scheme (IES) on pre- and post-shipment rupee export credit

Tags

Interest equalization scheme, IES, export credit, MSME, rupee export, government policy, financial support, exporters, subvention cap, RBI updates

Summary

The interest equalization scheme (IES) has been extended until August 31, 2024. Key changes include that only micro, small and medium enterprises (MSME) manufacturer exporters are eligible for benefits, with non-MSME exporters excluded beyond June 30, 2024. Additionally, the interest equalization will be capped at ₹1.66 Crore per Importer-Exporter Code (IEC) during this extended period [T2].

Insights

Key insights from the Interest Equalization Scheme (IES) update are:

- **Extension period**: The scheme is extended until August 31, 2024, starting from July 1, 2024.
- **Eligibility restriction**: Only MSME manufacturer exporters qualify for the benefits; non-MSME exporters are excluded after June 30, 2024.
- **Subvention cap**: The interest equalization amount is capped at ₹1.66 Crore per Importer-Exporter Code (IEC) for the extended duration.

Further details can be found on the RBI website:
https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12729&Mode=0

August 29, 2024: Scheme for trading and settlement of Sovereign Green Bonds in the International Financial Services Centre in India

Tags

Sovereign Green Bonds (SGrBs), coupon payment, redemption proceeds, Know Your Customer (KYC), Anti-Money Laundering (AML), Over-the-Counter (OTC) markets, Value Free Transfer (VFT)

Summary

This circular is applicable for all eligible market participants. The circular highlights guidelines for trading and settlement of Sovereign Green Bonds in International Financial Services Centre for purpose of foreign investments.

Insights

- Eligible investor can trade Sovereign Green Bond issued by Government of India in IFSC.
- Eligible investors can acquire securities in primary auctions done by RBI and can perform transactions in the secondary market.
- IFSC banking unit of an Indian bank and foreign bank which has branch or subsidiary licensed to have banking business are eligible to participate in the scheme.
- To enhance global financial security, eligible investor shouldn't be from high-risk jurisdiction.

Further details can be found on the RBI website:
https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12730&Mode=0

Aug 22, 2024: Processing of e-mandates for recurring transactions

Tags

e-mandate, recurring transactions, pre-debit notification, auto-replenishment, FASTag, NCMC, guidelines, payment systems, customer convenience, regulatory framework

Summary

The RBI has updated the e-mandate framework for recurring transactions, requiring issuers to send a pre-debit notification 24 hours before charges. The requirement also clarifies that auto-replenishment for FASTag and National Common Mobility Card (NCMC) are exempt from pre-debit notification since these do not have a fixed periodicity. The changes are effective immediately to enhance customer convenience and transparency.

Insights

Here are some key insights from the document on the e-mandate framework for recurring transactions:

1. **Pre-debit notification requirement**: Issuers must notify customers at least 24 hours before debiting their accounts for recurring transactions.
2. **Inclusion of auto-replenishment**: The framework now covers auto-replenishment for services like FASTag and NCMC, which are recurring but lack fixed periodicity.

3. **Exemption from notification**: Auto-replenishment transactions are exempt from the pre-debit notification requirement, streamlining the process for customers.
4. **Immediate implementation**: The updated guidelines are effective immediately, reflecting the RBI's commitment to enhancing customer convenience.
5. **Regulatory basis**: The circular is issued under the Payment and Settlement Systems Act, 2007, ensuring compliance with regulatory standards.

These insights highlight the RBI's focus on improving the efficiency and transparency of recurring payment processes.

Further details can be found on the RBI website:
https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12722&Mode=0

August 16, 2024: Review of master direction–non-banking financial company–peer-to-peer lending platform (reserve bank) directions, 2017

Tags

credit enhancement, credit guarantee, credit risk, pricing policy, closed user group, internal audit, peer to peer (P2P) lending

Summary

This circular is applicable to all peer-to-peer lending platforms. The circular provides guidelines for various aspects of functioning of peer-to-peer lending platforms. This circular also addresses observed violations by certain platforms.

Insights

1. Promotion of loans as an investment opportunity with assured return by Peer-to-peer lending platform is prohibited.
2. Lenders need to understand the risk associated with the lending transactions and provide the declaration to the P2P lending platform. In the event of borrower default, platform can't assure the recovery of loan.
3. Escrow accounts need to be used for fund transfer between participants in the P2P lending platform. Funds transferred to these escrow accounts shouldn't remain in these escrow accounts for more than T+1 days where T is the date on which fund is transferred into these escrow accounts.

4. P2P lending platforms can't outsource any of their functions like core management, internal audit, compliance and decision-making functions unless the P2P platform belongs to a group or conglomerate.

Further details can be found on the RBI website:
https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12721&Mode=0

August 12, 2024: Review of risk weights for Housing Finance Companies (HFCs)

Tags
risk weighted assets, undisbursed loans, disbursed loans, standard classification, non-fund-based exposures

Summary
This circular is applicable to Housing Finance Companies. The circular highlights modification in calculation of risk-weighted asset of undisbursed housing loans and risk weights for residential building exposure.

Insights
1. The risk weighted assets for undisbursed amounts of housing loans and other loans will be limited to the same level as the risk weighted assets of equivalent disbursed loans.
2. The risk weight for fund based and non-fund based standard exposures in commercial real estate for residential buildings has been set at 75%. For similar exposure which are classified as Non-standard, risk weight is 100%.

Further details can be found on the RBI website:
https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12720&Mode=0

August 12, 2024: Review of the regulatory framework for HFCs and harmonization of regulations applicable to HFCs and NBFCs

Tags
beneficial ownership, Account Aggregator (AA), financial information provider, financial information user, public deposits

Summary

This circular is applicable to all Housing Finance Companies (HFCs) and Non-Banking Finance Companies (NBFCs). The circular highlights transition of HFC supervision from National Housing Bank (NHB) to the RBI and harmonization of guidelines applicable to HFCs and NBFCs.

Insights

- To ensure consistency in financial oversight, harmonization of regulations applicable to HFCs and NBFCs will take place.
- To continue operations, HFCs which accept public deposit must have a minimum investment grade credit rating.
- The limit of public deposit held by HFCs has been reduced from 3 times to 1.5 times of net worth fund.
- Now HFCs can hedge risk and participate in financial instrument like currency future, currency option, interest rate future, credit default swap.
- HFCs need to maintain liquid assets which can be kept with specified entities for safe custody.

Further details can be found on the RBI website:
https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12719&Mode=0

Aug 08, 2024: Frequency of reporting of credit information by credit institutions to credit information companies

Tags

Credit Information Companies (CIC), CIC reporting, Credit Institutions (CI), frequency of reporting, fortnightly, effective from Jan 1, 2025

Summary

Reserve Bank of India (RBI) has issued a directive to credit institutions (CIs) and credit information companies (CICs) regarding the frequency of credit information reporting. The circular mandates that credit information should be updated on a fortnightly basis, specifically on the 15th and the last day of each month, or at shorter intervals mutually agreed upon. This change aims to enhance the accuracy of Credit Information Reports (CIRs) to facilitate better credit decisions in an era of digital processes. Additionally, CICs must process the received data within five calendar days, a reduction from the previous seven days. This directive will be effective from January 1, 2025, but institutions are encouraged to implement these changes sooner. Non-compliance may lead to penalties under the Credit Information Companies (Regulation) Act, 2005.

Insights

- The RBI emphasizes the need for timely updates in credit information to support efficient credit underwriting.
- The reporting frequency has been changed from monthly to fortnightly to ensure more current data is available.
- CICs are required to process the credit information data more swiftly, reducing turnaround time.
- Institutions not complying with the new reporting timelines will face penalties, highlighting the RBI's commitment to regulatory enforcement.
- The directive aims to improve the accuracy of credit assessments, thereby promoting informed lending decisions.

Further details can be found on the RBI website:
https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12718&Mode=0

Aug 06, 2024: Modified interest subvention scheme for short term loans for agriculture and allied activities availed through Kisan Credit Card (KCC) during the financial year 2024-25

Tags

interest subvention, Modified Interest Subvention Scheme (MISS), Kisan Credit Card, agriculture loans, timely repayment, aadhar linkage, natural calamities, agricultural development, short term loans, animal husbandry, dairy farming, produce storage, government scheme

Summary

The Modified Interest Subvention Scheme (MISS) for the financial year 2024-25 provides interest subvention on short-term loans for agriculture and allied activities through Kisan Credit Card (KCC). Farmers benefit from a lending rate of 7%, with a 1.5% subvention for banks and an additional 3% for timely repayments, effectively lowering the rate to 4%. The overall loan limit is ₹3 lakh per annum, with a ₹2 lakh sub-limit for allied activities. The scheme also encourages produce storage to prevent distress sales and offers relief for farmers affected by natural calamities. Aadhar linkage is mandatory for availing benefits, and banks must submit claims by June 30, 2025.

Insights

Here is a detailed list of key insights from the Modified Interest Subvention Scheme (MISS) for the financial year 2024-25:

- **Objective**:
  - The primary objective of the scheme is to provide financial support to farmers, encourage timely loan repayments, and enhance agricultural productivity through accessible credit.
- **Interest rates**:
  - The lending rate to farmers is set at 7%.
  - An interest subvention of 1.5% is provided to lending institutions.
  - Farmers who repay their loans on time can receive an additional 3% subvention, bringing the effective interest rate down to 4%.
- **Loan limits**:
  - The overall limit for loans under the Kisan Credit Card (KCC) is ₹3 lakh per annum.
  - There is a sub-limit of ₹2 lakh specifically for farmers engaged in allied activities such as animal husbandry, dairy, fisheries, and bee-keeping.
- **Timely repayment incentive**:
  - The additional 3% interest subvention is applicable only for timely repayments, which are defined as repayments made from the date of loan disbursement up to the due date set by the banks.
- **Support for small and marginal farmers**:
  - The scheme aims to discourage distress sales by allowing small and marginal farmers to benefit from interest subvention for an additional six months post-harvest against negotiable warehouse receipts.
- **Natural calamity provisions**:
  - For farmers affected by natural calamities, the applicable interest subvention rate will be available for the first year on restructured loans.
  - In cases of severe natural calamities, the interest subvention may be extended for up to three years or the entire period of the loan, subject to a maximum of five years.
- **Aadhar linkage**:
  - Aadhar linkage remains mandatory for farmers to avail of the benefits under the scheme, ensuring a streamlined process for identifying beneficiaries.
- **Claims submission**:
  - Banks are required to upload claims for interest subvention by June 30, 2025, certified by their Statutory Auditors as true and correct.
- **Encouragement of agricultural activities**:
  - The scheme supports various agricultural activities, including crop loans and loans for allied sectors, promoting overall agricultural development.
- **Data reporting**:
  - Banks must capture and report granular data of individual farmer beneficiaries on the Kisan Rin Portal (KRP) to facilitate the settlement of audited claims.

The comprehensive nature of the scheme highlights its focus on supporting farmers while promoting responsible borrowing and repayment practices.

Further details can be found on the RBI website:
https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12717&Mode=0

Aug 02, 2024: Prudential treatment of bad and doubtful debt reserve by co-operative banks

Tags

cooperative banks, Bad and Doubtful Debt Reserve (BDDR), provision, non-performing assets, accounting standards, capital adequacy, prudential treatment of BDDR

Summary

The document outlines the Reserve Bank of India's revised instructions on the Prudential Treatment of Bad and Doubtful Debt Reserve (BDDR) for co-operative banks, effective from the financial year 2024-25. It emphasizes that all provisions for Non-Performing Assets (NPAs) must be recognized as expenses in the Profit and Loss (P&L) account, in line with Accounting Standard.

The guidelines aim to standardize the treatment of BDDR across banks, allowing for appropriations from net profits to BDDR after accounting for necessary provisions. A one-time measure is introduced to facilitate the transition to an AS-compliant approach, allowing banks to adjust previously created provisions. The circular applies to all Primary (Urban), State, and Central Co-operative Banks, ensuring compliance with relevant statutes and regulations.

Insights

Here are some important insights from the document regarding the Prudential Treatment of BDDR by Co-operative Banks:

- **Expense recognition:** Provisions for Bad and Doubtful Debt must be recognized as an expense in the Profit and Loss (P&L) account in the accounting period they are identified. This aligns with the requirements of Accounting Standard (AS), which mandates that all expenses recognized in a period should be included in the determination of net profit or loss.
- **Regulatory capital treatment:** The eligibility of provisions for regulatory capital purposes is defined by existing guidelines on capital adequacy. After recognizing all applicable provisions as per Income Recognition, Asset Classification, and Provisioning (IRACP) norms, banks may make appropriations of net profits to BDDR if required by statutes.

- **Transition measures:** A one-time measure is prescribed to facilitate a smoother transition to an AS-compliant approach. Banks are required to identify and quantify the BDDR balances as of March 31, 2024, which were created by appropriating from net profits instead of recognizing them as expenses**.**
- **Net NPAs calculation:** As of March 31, 2025, banks can make appropriations from the P&L Account or General Reserves to provisions for Non-Performing Assets (NPAs) to the extent of the identified BDDR. However, the balance in BDDR shall not be reduced from Gross NPAs to arrive at Net NPAs.
- **Applicability:** The circular applies to all Primary (Urban) Co-operative Banks, State Co-operative Banks, and Central Co-operative Banks, with immediate effect. Compliance with the respective State Co-operative Societies Acts or the Multi-State Co-operative Societies Act, 2002, is also emphasized.
- **Uniformity in treatment:** The revised instructions aim to bring uniformity in the treatment of BDDR for prudential purposes, addressing discrepancies observed in the treatment of BDDR across different banks.

These insights highlight the regulatory framework and accounting practices that co-operative banks must adhere to regarding the treatment of bad and doubtful debts.

Further details can be found on the RBI website:
https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12716&Mode=0