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Regulatory Updates

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February 7, 2025: Liquidity adjustment facility—change in rates

Tags

Liquidity Adjustment Facility (LAF), Monetary Policy Committee (MPC), Repo rate, Standing Deposit Facility (SDF), Marginal Standing Facility (MSF)

Summary

This circular applies to all Liquidity Adjustment Facility (LAF) participants. The circular states that the Monetary Policy Committee (MPC) has reduced the policy repo rate under the Liquidity Adjustment Facility (LAF) by 25 basis points from 6.50% to 6.25%. As a result, the Standing Deposit Facility (SDF) rate has been adjusted to 6% and the Marginal Standing Facility (MSF) rate to 6.5%.

Further details can be found on the RBI website:
https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=12774&Mode=0

February 7, 2025: Standing liquidity facility for primary dealers

Tags

Liquidity Adjustment Facility (LAF), Monetary Policy Committee (MPC), Repo rate, Primary Dealer, Standing Liquidity Facility

Summary

This circular applies to all primary dealers. The circular states that the Monetary Policy Committee (MPC) has reduced the policy repo rate under the Liquidity Adjustment Facility (LAF) by 25 basis points from 6.50% to 6.25%. As a result, the Reserve Bank's Standing Liquidity Facility for Primary Dealers will now be available at an updated repo rate of 6.25%.

Further details can be found on the RBI website:
https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=12775&Mode=0

February 7, 2025: Change in bank rate

Tags

Monetary Policy Committee (MPC), Bank Rate

Summary

This circular applies to all the banks in India. The circular states that the bank rate is reduced by 25 basis points from 6.75% to 6.50%. As a result, the penal interest rate on shortfalls in reserve requirements have been reduced by 25 basis points from 9.75% or 11.75% to 9.5% or 11.5%, respectively.

Further details can be found on the RBI website:
https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12776&Mode=0

February 7, 2025: Master direction—Reserve Bank of India (access criteria for NDS-OM) directions, 2025

Tags

Negotiated Dealing System (NDS-OM), Securities and Exchange Board of India (SEBI), Subsidiary General Ledger (SGL), Clearing Corporation of India Limited (CCIL)

Summary

This master direction applies to all the participants in the Government Securities market. The master direction states the revised access criteria for the Negotiated Dealing System—Order Matching (NDS-OM) platform.

Insights

1. Any person or entity eligible to invest in government securities is permitted to access NDS-OM, either directly or indirectly or through Stockbroker Connect.
2. **Direct access:** Entities must fulfill the following criteria to get direct access:
   a) SGL account with the Reserve Bank
   b) Current account with the Reserve Bank or any designated settlement bank

c) Membership of the securities settlement segment of Clearing Corporation of India Limited (CCIL).

3. **Indirect access:** Any person or entity not eligible for direct access to NDS-OM can avail indirect access to NDS-OM through an entity having direct access, provided this entity needs to take responsibility for the transaction settlement for the entity looking for indirect access.
4. **Stockbroker connect:** A Person with a demat account with a SEBI-registered depository can access NDS-OM through a stockbroker registered with SEBI.

Further details can be found on the RBI website:
https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=12777&Mode=0

February 10, 2025: Foreign exchange management (manner of receipt and payment) (amendment) regulations, 2025

Tags

Asian Currency Unit (ACU)

Summary

The circular states the amendment to the Foreign Exchange Management regarding the Receipt and Payment transaction.

Insights

1. Payments made between residents of member countries of ACU, other than Nepal and Bhutan, can be executed through the Asian Currency Unit (ACU) mechanism.
2. Payments made between residents of non-member countries of ACU can be done as per the existing Foreign Trade Policy framed by the Central Government.

Further details can be found on the RBI website:
https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12779&Mode=0

February 13, 2025: Export-Import Bank of India's GOI-supported line of credit of USD 180 mn to the Government of the Socialist Republic of Vietnam for procurement of 4 Offshore Patrol Vessels (OPV) in the borrower's country

Tags

Line of Credit (LoC), Export-Import Bank of India (Exim Bank)

Summary

This circular applies to all category-1 authorized dealer banks. The circular states that a Line of Credit (LoC) agreement of USD 180 million has been established between the Export-Import Bank of India and the Government of Vietnam to purchase 4 Offshore Patrol Vessels (OPV) in Vietnam.

Insights

1. Exports of eligible goods and services from India can be financed by the Exim Bank under this agreement, provided they meet the requirements of the Foreign Trade Policy of the Government of India.
2. Shipments under the LOC must comply with the Reserve Bank of India guidelines and be declared in the Export Declaration Form or Shipping Bill.
3. Agency commission is not permitted for exports under the LOC. However, the exporter may use their own resources or the balance in the Exchange Earners' Foreign Currency Account to make commission payments.
4. The LoC agreement is effective from January 20, 2025, and allows disbursements for up to 60 months following the project's planned completion date.

Further details can be found on the RBI website:
https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=12780&Mode=0

February 13, 2025: Export-Import Bank of India's GOI-supported line of credit of USD 120 mn to the Government of the Socialist Republic of Vietnam (GO-VNM) for procurement of high-speed guard boats in the borrower's country

Tags

Line of Credit (LoC), Export-Import Bank of India (Exim Bank)

Summary

This circular applies to all category-1 authorized dealer banks. The circular states that the Export-Import Bank of India and the Government of Vietnam have established a Line of Credit (LoC) agreement of USD 120 million. This LOC will be used to procure high-speed guard boats in Vietnam.

Insights

1. Export of eligible goods and services from India, which can be financed by the Exim Bank under this agreement, provided the export needs to be eligible under the Foreign Trade Policy of the Government of India.
2. Shipment details under the LOC must be declared in the Export Declaration Form or Shipping Bill.
3. No agency commission is permitted for the export under the LOC. However, exporters can use their own resources or balance from Exchange Earners' Foreign Currency Account for commission payment.
4. The LoC agreement is effective from January 20, 2025, and permits disbursements for up to 60 months after the project's planned completion date.

Further details can be found on the RBI website:
https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=12781&Mode=0

February 17, 2025: Government securities transactions between a Primary Member (PM) of NDS-OM and its own Gilt Account Holder (GAH) or between two GAHs of the same PM

Tags

Government securities, NDS-OM, bond trading, Primary Member (PM), Gilt Account Holder (GAH), securities transactions, Clearing Corporation of India Limited (CCIL), trade settlement, financial markets, Order Matching, Request for Quote (RFQ), Over-the-Counter (OTC) transactions, SGL bouncing penalty

Summary

This circular introduces changes to how transactions between a PM and its GAHs, or between two GAHs of the same PM, are processed. Previously, these transactions were not permitted to be matched on the Negotiated Dealing System—Order Matching (NDS-OM) platform or settled through the Clearing Corporation of India Limited (CCIL).

The RBI has now allowed these transactions to be matched on NDS-OM and settled via CCIL, enhancing market transparency and efficiency. Additionally, bilaterally negotiated transactions between these entities can now be optionally cleared through CCIL. Failure to settle such transactions will be treated as an instance of 'SGL bouncing' and subject to penalties per existing RBI guidelines. CCIL will provide further operational details.

Insights

1. The RBI now allows transactions between a PM and its own GAHs or between two GAHs of the same PM to be matched on NDS-OM.
2. These transactions can now be settled through CCIL, improving market transparency and efficiency.
3. Bilaterally negotiated transactions between these entities can also be optionally cleared through CCIL.
4. Failure to settle such transactions will be treated as 'SGL bouncing' and penalized under RBI regulations.
5. The new framework strengthens risk controls and enhances liquidity management in the government securities market.

Further details can be found on the RBI website:
https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=12782&Mode=0

February 17, 2025: Reserve Bank of India (prudential regulations on Basel III capital framework, exposure norms, significant investments, classification, valuation and operation of investment portfolio norms and resource raising norms for all India financial institutions) directions, 2023—amendment

Tags

Basel III, prudential regulations, capital framework, investment norms, All India Financial Institutions (AIFIs), EXIM Bank, NABARD, National Bank for Financing Infrastructure and Development (NaBFID), National Housing Bank (NHB), Small Industries Development Bank of India (SIDBI), Held to Maturity (HTM) category, exposure limits, long-term bonds, debentures

Summary

This circular revises the investment limits for All India Financial Institutions (AIFIs). Previously, AIFIs had a 25% ceiling on investments under the Held to Maturity (HTM) category. This amendment exempts investments in long-term bonds and debentures (minimum three-year maturity) issued by non-financial entities from this limit, provided they align with the institution's statutory mandate.

The change applies to AIFIs such as EXIM Bank, NABARD, NaBFID, NHB, and SIDBI. Effective April 1, 2025, the amendment aims to enhance investment flexibility while maintaining regulatory oversight.

Insights

1. AIFIs can now invest in long-term non-financial bonds without affecting the 25% HTM ceiling.
2. The amendment provides more flexibility for institutions like NABARD, SIDBI, and NHB in managing their investment portfolios.
3. Investments in bonds and debentures with a residual maturity of at least three years will not count toward HTM limits.

4. The changes aim to enhance long-term financing capabilities for AIFIs while ensuring regulatory compliance.
5. These modifications will come into effect on April 1, 2025, ensuring a smooth transition for affected financial institutions.

Further details can be found on the RBI website:
https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=12783&Mode=0

February 21, 2025: Reserve Bank of India (forward contracts in government securities) directions, 2025

Tags

Government Securities, Bond Forwards, Derivatives, Market-Makers, Settlement, Trading Regulations, Risk Management

Summary

This circular establishes a regulatory framework for bond forwards, defining market participants, trading practices, settlement mechanisms, and reporting obligations. Scheduled Commercial Banks (excluding small finance, payment, local area, and regional rural banks) and Standalone Primary Dealers (SPDs) are eligible as market-makers, while other entities may participate as users under specific conditions.

The guideline outlines rules for covered and uncovered short positions, cash and physical settlements, and compliance with capital adequacy norms. Market participants must follow strict reporting and risk management protocols to enhance transparency and market stability. These directions come into effect on May 2, 2025.

Insights

1. Bond forwards now have a structured regulatory framework under RBI.
2. Only select financial entities can act as market-makers.
3. Market participants must adhere to specific settlement and reporting requirements.
4. The guideline takes effect from May 2, 2025.

Further details can be found on the RBI website:
https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=12784&Mode=0

February 24, 2025: Review and rationalization of prudential norms—UCBs

Tags

Urban Co-operative Banks (UCBs), prudential norms, real estate exposure, small value loans, capital adequacy, provisioning, security receipts

Summary

This circular consists of revised guidelines to strengthen financial resilience while allowing greater operational flexibility. The definition of small-value loans is updated, increasing the limit to ₹25 lakh or 0.4% of Tier I capital (with a maximum of ₹3 crore per borrower). Real estate exposure limits are also revised, capping aggregate and individual housing loans based on UCB tier classification.

Additionally, the glide path for provisioning security receipts (SRs) has been extended until FY2027-28. These changes take immediate effect and replace previous regulations.

Insights

1. UCBs get more flexibility in defining small-value loans.
2. Housing loan limits have been revised based on the UCB tier classification.
3. The glide path for provisioning security receipts has been extended by two years.
4. Changes apply immediately, replacing previous regulations.

Further details can be found on the RBI website:
https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=12785&Mode=0

February 25, 2025: Review of risk weights on microfinance loans

Tags

Microfinance, Risk Weights, Basel III, Consumer Credit, Regulatory Retail Portfolio, Capital Regulations

Summary

The Reserve Bank of India (RBI) has revised the risk weights applicable to microfinance loans. Previously, microfinance loans classified as consumer credit were subject to a 125% risk weight. However, the new directive assigns such loans a 100% risk weight.

Microfinance loans that meet specific regulatory retail portfolio (RRP) criteria can attract a 75% risk weight. The revision aims to clarify the treatment of microfinance loans while maintaining financial prudence for commercial banks, Small Finance Banks (SFBs), Regional Rural Banks (RRBs), and Local Area Banks (LABs)

Insights

1. RBI has revised risk weights for microfinance loans from 125% to 100%.
2. Microfinance loans qualifying under RRP criteria can attract a lower 75% risk weight.
3. RRBs and LABs must apply a uniform 100% risk weight for all microfinance loans.
4. Policy changes impact outstanding as well as new microfinance loans.

Further details can be found on the RBI website:
https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=12786&Mode=0

February 25, 2025: Exposures of Scheduled Commercial Banks (SCBs) to Non-Banking Financial Companies (NBFCs)—Review of risk weights

Tags

Risk Weights, Scheduled Commercial Banks (SCBs), Non-Banking Financial Companies (NBFCs), Banking Regulation, Basel III, Financial Stability, Consumer Credit, Regulatory Update, Risk Assessment

Summary

The circular states that the previous increase in risk weights for Scheduled Commercial Banks' (SCBs) exposures to Non-Banking Financial Companies (NBFCs) will be reversed. The risk weights will now align with the external ratings of the NBFCs as outlined in the Basel III Capital Regulations. This change is effective from April 01, 2025, and excludes loans to housing finance companies and those eligible for priority sector classification.

Insights

1. The reversal of risk weights reflects a regulatory adjustment to enhance the lending environment for SCBs.
2. The decision may encourage SCBs to engage more with NBFCs, improving liquidity and funding availability.
3. Aligning risk weights with external ratings emphasizes the importance of credit assessment in banking operations.
4. The phased implementation allows banks to prepare effectively for updated risk management strategies.
5. The exclusions in the regulations suggest a targeted approach to risk by the RBI.

Further details can be found on the RBI website:
https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=12787&Mode=0

February 27, 2025: Implementation of section 51A of UAPA, 1967: updates to UNSC's 1267/1989 ISIL (Da'esh) & Al-Qaida sanctions list: amendments in 01 entry

Tags

UAPA, UNSC, ISIL, Al-Qaida, sanctions, de-listing, Lionel Dumont, compliance, regulated entities, Ministry of External Affairs, Ministry of Home Affairs, terrorism

Summary

The circular provides an update regarding the implementation of Section 51A of the Unlawful Activities (Prevention) Act (UAPA) in India, focusing on the recent changes to the UNSC's sanctions list concerning ISIL (Da'esh) and Al-Qaida. It informs regulated entities that they must ensure compliance by not maintaining accounts of individuals linked to terrorism, as listed by the UNSC. Notably, Lionel Dumont's entry has been removed from the sanctions list following a de-listing request. The document outlines the procedures for compliance and further actions regarding de-listing requests.

Insights

1. Regulated entities must actively monitor their accounts for individuals/entities listed as having terrorist links to maintain compliance.

2. The removal of individuals from the UNSC's sanctions list highlights the ongoing review process of such listings, reflecting changes in assessed threat levels.
3. Detailed procedures for de-listing requests underscore the importance of transparency and due process in international terrorism sanctions.
4. The document serves as a reminder of the interconnectedness between national regulations (UAPA) and international sanctions frameworks (UNSC).
5. Entities seeking removal from the sanctions list must follow specific procedures involving submissions to an Ombudsperson designated by the UN.

Further details can be found on the RBI website:
https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=12788&Mode=0

February 28, 2025: Reporting and accounting of central government transactions for March 2025

Tags

Central Government Transactions, March Residual Transactions, Nodal/Focal Point Branches, Tax Collections, Revenue Payments, Government Accounting, CAS Nagpur, Financial Reporting, Settlement Deadlines

Summary

These circular outlines the procedures for banks to ensure proper financial year-end accounting. The Government of India has set April 10, 2025, as the final date for residual transactions related to March 2025. Banks must adopt special arrangements, such as courier services, to ensure timely processing of challans and scrolls. Nodal/Focal Point branches must prepare separate scrolls for March 2025 and April 2025 transactions to prevent mixing financial years.

These transactions must be reported distinctly to the Reserve Bank of India's Central Accounts Section (CAS) in Nagpur. Any cheques realized on or before March 31 will be accounted for in the financial year 2024-25, while those cleared on or after April 1 will fall under the next financial year.

Insights

1. The final date for reporting March 2025 transactions is April 10, 2025, ensuring accurate government account closure.

2. Banks must arrange for timely submission of challans and scrolls through special services to prevent delays.
3. Separate scrolls must be maintained for March residual transactions and April transactions to avoid accounting discrepancies.
4. Transactions realized before March 31 will be included in FY 2024-25, while those cleared from April 1 onward will be part of FY 2025-26.
5. To facilitate smooth settlement and reconciliation, nodal/Focal Point branches must ensure distinct reporting to RBI's CAS, Nagpur.

Further details can be found on the RBI website:
https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=12789&Mode=0