



"The changing operating and risk environment requires banks to be vigilant, strong and agile so as to identify risks early, absorb the shocks and be able to adapt to the newer ground realities."

- M.K. Jain, Deputy Governor - RBI

Does Offshore NDF market influence Onshore Forex market? – Evidence from India

The RBI paper examines the interrelationship between onshore and offshore NDF markets for the Indian Rupee in view of price discovery, mean and volatility spillovers. The findings of the study suggest a stable long-run relationship between onshore and NDF markets with price discovery taking place in spot and forward markets. Regarding "volatility spillover", the analysis indicates a unidirectional volatility spillover from spot and forward segments to NDF markets in normal circumstances, which turns bi-directional during times of depreciation pressure on the rupee. On the other hand, the existence of two-way volatility spillovers between futures and NDF segments becomes unidirectional from offshore to onshore during episodes of intensified global risks. The study therefore recommends that a real-time monitoring of the market is essential to contain any substantial spillover from the offshore NDF markets.

Guidelines on Compensation of Top Management of Banks: RBI Clarifications

The RBI has issued clarifications on its guidelines pertaining to compensation of Whole Time Directors/CEOs/Control Function Staff etc. Directing all banks to adhere to these guidelines, the central bank said that the fair value of share-linked incentives should be recognised as an expense starting with the accounting time frame for which approval has been previously granted.

RBI's guidelines on opening of current accounts

RBI has extended the deadline for implementation of guidelines on current account opening by banks to October 31, 2021. Banks must engage with their customers and aim to arrive at mutually agreeable resolutions in a non-disruptive manner. Banks must also put in place a monitoring mechanism across Head Office and Regional levels to aid successful implementation of the circular and ensure customers are not put through unnecessary inconvenience during the process.

Framework for Accredited Investors

SEBI in circular issued guidelines on eligibility criteria for accredited investors (AIs), the procedure and validation for accreditation, the process to avail accreditation linked benefits and flexibility to investors to withdraw 'consent'. Net worth/income of an individual will be used as the basis to identify an individual as an accredited investor.

Prudential Norms for Off-balance Sheet Exposure of Banks

As per extant instructions, for derivative contracts any change in terms of the original contract is treated as a restructuring and the resultant change in the mark-to-market value of the contract on the date of restructuring is required to be cash settled. Since the impending change in reference rate from LIBOR is a "force majeure" event, banks have been advised that change in reference rate from LIBOR / LIBOR-related benchmarks to an Alternative Reference Rate will not be treated as restructuring.

Safe Deposit Locker/Safe Custody Facility to non-banking customers

As per RBI's revised instructions, banks may extend safe deposit lockers and safe custody facilities to customers without a banking relationship with the bank, upon compliance with customer due diligence criteria. Banks shall maintain a branch wise list of vacant lockers in addition to a wait-list in their Core Banking System (CBS) or another computerised system that complies with RBI's norms on cyber security framework for transparency in allotment of lockers. Banks are advised to frame board-approved policies to accommodate the revised instructions which will come into effect from January 1, 2022.

Rationalisation of Overseas Investment Regulations – Draft rules

The RBI has placed on its website draft Foreign Exchange Management (Non-debt Instruments - Overseas Investment) Rules, 2021 and draft Foreign Exchange Management (Overseas Investment) Regulations, 2021 for public consultation. This is with a view to streamline and liberalise the existing regulations governing overseas investment for ease in doing business.

Framework for Outsourcing Activities by Payment System Operators (PSOs)

RBI has issued a framework for outsourcing of processes by PSOs excluding functions such as internal audit and compliance. The framework comprehensively covers the scope and risks of outsourcing, the PSO's role and its regulatory/supervisory requirements, role of the Board and the Senior Management and other prudential, monitoring and reporting requirements.

Permitting non-scheduled Payment Banks to register as Bankers to an Issue

SEBI in an amendment to SEBI (Bankers to an Issue) Regulations 1994 permitted non-scheduled payment banks to act as BTI subject to obtaining prior approval from RBI and fulfilling the conditions stipulated under the BTI regulations.

RBI extends the Scope of Permitted Devices for Tokenized Card Transactions

RBI extended the scope of permitted devices allowed to undertake tokenized card transactions to include consumer devices such as laptops, desktops, wearable devices and Internet of Things (IoT). The central bank aims to make card transactions more safe, secure and convenient for users.

Penalty Corner

RBI:

The Reserve Bank of India imposed a penalty of Rs. 6 Lakh on **Hewlett-Packard Financial Services** for non-compliance with the regulator's statutory directions on submission of credit information to CRILC and submission of credit data to CICs.

The RBI imposed a monetary penalty of Rs. 27.5 Lakh on **Dhanlaxmi Bank Ltd** for contravention of the directions pertaining to Depositor Education and Awareness Fund Scheme observed during the statutory inspection of the bank as on March 31, 2020.

The RBI imposed a fine of Rs. 5 Lakh on **Village Financial Services Limited** for non-compliance with statutory directions issued under (Know Your Customer (KYC)) Directions, 2016 for failing to put in place a robust software for effective identification and reporting of suspicious transactions.

The RBI imposed a monetary penalty of Rs. 1 Crore on **Rabobank U.A** for non-compliance with certain provisions of the Banking Regulation Act, 1949 and directions pertaining to 'transfer to Reserve funds'.

Axis Bank received a fine of Rs. 25 Lakh by RBI after the bank was found to be in violation of KYC norms. RBI said that the bank had failed to monitor/carry out ongoing due diligence in said account to ensure that the transactions were consistent with its knowledge about the customer, customer's business and risk profile.

SEBI:

SEBI has barred **Kotak AMC** from launching any fixed maturity plans (FMPs) for a period of six months in addition to a monetary penalty of Rs. 50 Lakh for its failure to pay full proceeds as per Net Asset Value (NAV) to certain investors on their maturity dates. The regulator has further directed the AMC to refund part of the investment management and advisory fees that were collected from unitholders of the affected FMP schemes.