Compliance Matters

India Regulatory Roundup

January 2022

"Corporate Governance to banks during tough times is what immunity is to an individual at times of health scare. The development of immunity is complex and takes lifelong ingestion of healthy and positive practices. Like human longevity, the sustainability of banking business comes from the healthy corporate governance practices." ,

- M. Rajeshwar Rao, Deputy Governor, RBI
Mint Annual Conclave December, 2021

Framework for facilitating Small Value Digital Payments in Offline Mode

The framework to enable small value digital payments in Offline Mode has been issued by RBI for compliance by Authorised Payment System Operators (PSOs) and Payment System Participants (PSPs) – Acquirers and Issuers (banks and non-banks). The guidelines allow offline payments to be made using any channel/instruments like cards, wallets, mobile devices etc. in close proximity (face to face). Offline payment facility may be offered without Additional Factor of Authentication (AFA) but only upon receiving explicit consent of the customer. An upper limit of Rs. 200 has been set for offline payment transactions and the total limit for offline transactions shall be capped at Rs. 2000 at any point of time.

Retail Direct Scheme – Market Making

The Retail Direct Scheme had been launched by RBI for providing one-stop access to facilitate investment in Government Securities by retail investors. In order to provide liquidity in the secondary market, a market-making arrangement has been introduced, wherein the Primary Dealers shall be present on the NDS-OM platform (odd-lot and Request for Quotes segments) throughout market hours and respond to buy/sell requests from Retail Direct Gilt Account Holders (RDGAHs). As incentives to PDs, all successful trades under the Retail Direct Scheme will be reckoned towards fulfilling the annual target for turnover with mid-segment and retail investors prescribed to each PD respectively.

Registration of Assignment of Receivables (Reserve Bank) Regulations, 2022

In a move that will ease the access of MSMEs to formal financing channels, the RBI has notified the Registration of Assignment of Receivables (Reserve Bank) Regulations, 2022 which prescribe the norms for filing of transactions with the Central Registry by a Trade Receivable Discounting System (TReDS) on behalf of Factors. The Regulations provide that where any trade receivables are financed through a TReDS; the concerned TReDS on behalf of the Factor shall, within a period of ten days, from the date of such assignment or satisfaction thereof, file with the Central Registry the particulars of assignment of receivables in favor of a factoring company or Satisfaction of any assignment of receivables on full realization of the receivables. The regulations will lead to operational efficiency for the exchange of information, and timebound reporting of transactions of MSMEs on TReDS.

Liquidity Coverage Ratio (LCR), Liquidity Risk Monitoring Tools and LCR Disclosure stand

To enable banks to manage liquidity risk more effectively and better align the guidelines to BCBS standard, the Reserve Bank has decided to increase the threshold limit for deposits and other extensions of funds made by non-financial Small Business Customers from ₹5 crore to ₹7.5 crore for the purpose of maintenance of Liquidity Coverage Ratio (LCR).

Eligibility criteria for 'Specified Users' under Credit Information Companies (Amendment) Regulations, 2021

The Credit Information Companies (Regulation) Act, 2005 had limited access to credit information to banks, regulated brokers, insurance companies, NBFCs, etc. The present amendment allows unregulated entities including fintech companies, to be eligible for classification as Specified User, subject to meeting certain criteria. The eligibility criteria released by RBI, specify that the entity should be a company incorporated in India or a Statutory Corporation established in India, the governing statute of which or Memorandum of Association of the Company should allow the business/activity of processing of information for the support or benefit of credit institutions. Further, the company should have a net worth of not less than Rs. Two Crores, and be an Indian company owned and controlled by resident Indian citizens.

RBI issues regulations under the amended Factoring Regulation Act, 2011

The Government of India has recently announced amendments to the Factoring Regulation Act 2011, which widens the scope of companies that can undertake factoring business. Empowered by the amendment, RBI has issued the Registration of Factors (Reserve Bank) Regulations 2022 on January 14, 2022. Under the new Regulations any existing Non Deposit taking NBFC-ICC, intending to undertake factoring business, having assets of Rs 1000 crore and above as per the last audited balance sheet, and NOF of Rs 5 crore, is eligible to apply to RBI for grant of CoR. Existing NBFC-ICCs, which do not satisfy the above conditions but intend to undertake factoring business, can approach the Reserve Bank for conversion from NBFC-ICC to NBFC-Factors and should comply with the Principal Business Criteria as specified in the Regulation.

Discussion Paper on Prudential Norms for Classification, Valuation and Operations of Investment Portfolio of Commercial Banks

The Discussion Paper released by RBI has put forth proposals to comprehensively align the prudential framework for classification, valuation and operations of investment portfolio of banks. with global standards. The key proposals include classification of the investment portfolio into three categories viz. Held to Maturity (HTM), Available for Sale (AFS) and introduction of a new category, Fair Value through Profit and Loss Account (FVTPL) Under the proposed guidelines, HFT shall be a sub-category within FVTPL aligned with the specifications of 'Trading Book' as per the Basel III framework. Other recommendations include doing away with the Investment reserve account and transferring its balance to Revenue and Other Reserves" which is reckoned for CET 1. Based on feedback on the DP, the guidelines are proposed to be revised w.e.f April 1, 2023.

STAY TUNED

Central Bank Digital Currency is expected to be rolled out by RBI in the Financial Year 2023, with enabling legislative changes proposed in the Finance Bill.

Trading gains from Virtual assets like crypto-currency, Non-Fungible Tokens (NFT) come under the tax net, but uncertainty over their legal and regulatory status continues!

"We must recognise that the opportunities and risks extend well past the crypto- assets themselves to encompass a rapidly expanding range of financial services. The future of this new frontier depends critically on the regulatory response to these new activities and how fast the traditional financial system modernises.

-Carolyn A Wilkins - External Member of Monetary Policy Committee, Bank of England."