**CAIIB Elective – Risk Management**

**RBI Notifications during the period 1st January 2020 to 30th June 2020**

**Risk Management and Inter-bank Dealings- Permitting AD Cat-I banks to voluntarily undertake user and Inter-Bank transactions beyond onshore market hours**

RBI/2019-20/136 A.P. (DIR Series) Circular No. 15 January 6, 2020

All Authorised Dealers Category-I

Attention of Authorised Dealers (ADs) is invited to the Foreign Exchange Management (Foreign Exchange Derivative Contracts) Regulations, 2000 notified vide Notification No. FEMA.25/RB-2000 dated May 3, 2000) issued under clause (h) of sub-section (2) of Section 47 of FEMA, 1999 (Act 42 of 1999), as amended from time to time and the Master Direction- Risk Management and Inter-bank Dealing dated July 05, 2016, as amended from time to time.

2. As announced in the Statement of Developmental and Regulatory Policies dated October 04, 2019 it has been decided to accept the recommendation of the Task Force on Offshore Rupee Market to permit AD Cat-I banks to offer foreign exchange prices to users at all times, out of their Indian books, either by a domestic sales team or through their overseas branches.

3. Accordingly, the following section is being added in Part C (Inter-Bank Foreign Exchange Dealings) of the Master Direction- Risk Management and Inter-Bank Dealings:

**“6. Customer and inter-bank transactions beyond onshore market hours**

Authorised dealers may undertake customer (persons resident in India and persons resident outside India) and inter-bank transactions beyond onshore market hours. Transactions with persons resident outside India, through their foreign branches and subsidiaries may also be undertaken beyond onshore market hours.”

4. The directions contained in this circular have been issued under sections 10(4) and 11(1) of the Foreign Exchange Management Act, 1999 (42 of 1999) and are without prejudice to permissions/approvals, if any, required under any other law.

**Risk Management and Inter-bank Dealings- Participation of Banks in Offshore Non-deliverable Rupee Derivative Markets**

RBI/2019-20/193 A.P. (DIR Series) Circular No.23 March 27, 2020

All Authorised Dealer Category-I Banks

Attention is invited to the Foreign Exchange Management (Foreign Exchange Derivative Contracts) Regulations, 2000 (Notification no. FEMA.25/RB-2000 dated May 3, 2000), as amended from time to time, and Master Direction- Risk Management and Inter-bank Dealings dated July 06, 2016, as updated from time to time (Master Direction)

2. As stated in paragraph 10 of the Statement on Developmental and Regulatory Policies dated March 27, 2020, banks in India having an Authorised Dealer Category-1 license under Foreign Exchange Management Act (FEMA), 1999, and operating International Financial Services Centre (IFSC) Banking Units (IBUs), shall be eligible to offer non-deliverable derivative contracts involving the Rupee, or otherwise, to persons not resident in India. Banks can undertake such transactions through their branches in India, through their IBUs or through their foreign branches (in case of foreign banks operating in India, through any branch of the parent bank).

3. Accordingly, the following amendments are being made to the Master Direction. The amendments shall come into effect from June 1, 2020.

(a) In Part-A (Section II) of the Master Direction, a new paragraph (9A) is added as follows:

“9A. Non-deliverable derivative contracts (NDDC)

i. Non-deliverable derivative contract (NDDC) means a foreign exchange derivative contract involving the Rupee, entered into with a person not resident in India and which is settled without involving delivery of Rupee.

ii. Banks in India having an Authorised Dealer Category-1 license under FEMA, 1999, and operating International Financial Services Centre (IFSC) Banking Units (IBUs) (as specified in circular no. RBI/2014-15/533.DBR.IBD.BC.14570/ 23.13.004/2014-15 dated April 1, 2015 (as amended from time to time)), shall be eligible to offer non-deliverable derivative contracts involving the Rupee, or otherwise, to persons not resident in India. Banks can undertake such transactions through their IBUs or through their branches in India or through their foreign branches (in case of foreign banks operating in India, through any branch of the parent bank).

(b). In Part C of the Master Direction, a new paragraph is added as follows:

“3A. Transaction in Non-deliverable derivative contracts (NDDC)

Authorised dealers having an IFSC Banking Unit (IBU) (as specified in circular no.RBI/2014-15/533.DBR.IBD.BC.14570/23.13.004/2014-15 dated April 1, 2015 (as amended from time to time)) may transact in Non-deliverable derivative contracts (NDDCs) with other AD Category 1 banks having IBUs and banks overseas. Banks can undertake such transactions through their IBUs or through their branches in India or through their foreign branches (in case of foreign banks operating in India, through any branch of the parent bank).”

4. The directions contained in this circular have been issued under Sections 10(4) and 11(1) of the Foreign Exchange Management Act, 1999 (42 of 1999) and are without prejudice to permissions /approvals, if any, required under any other law.

**Risk Management and Inter-bank Dealings – Hedging of foreign exchange risk**

RBI/2019-20/210 A.P.(DIR Series) Circular No. 29 April 7, 2020

To,

Authorised Dealers Category – I

Attention of Authorised Dealers Category – I (AD Category – I) banks is invited to the Foreign Exchange Management (Foreign Exchange Derivative Contracts) Regulations, 2000 dated May 3, 2000 (Notification No.FEMA.25/RB-2000 dated May 3, 2000), as amended from time to time and Master Directions on Risk Management and Inter-Bank Dealings dated July 5, 2016, as amended from time to time.

2. As announced in the Statement on Developmental and Regulatory Policies dated December 5, 2019, the existing facilities for non-residents and residents to hedge their foreign exchange risk on account of transactions permitted under Foreign Exchange Management Act (FEMA), 1999 have been revised. The revised directions are provided at Annex–I to this circular. All previous operational guidelines, terms and conditions in this regard shall stand withdrawn from the date that these directions come into effect.

3. Necessary amendments (Notification No.FEMA.398/RB-2020 dated February 18, 2020) to Foreign Exchange Management (Foreign Exchange Derivatives Contracts) Regulations, 2000 (Notification No.FEMA.25/RB-2000 dated May 3, 2000) (Regulations) have been notified in the Official Gazette vide Gazette Id no. CG-MH-E-06032020-216549 dated March 3, 2020, a copy of which is annexed to this circular. These regulations have been issued under clause (h) of sub-Section (2) of Section 47 of FEMA, 1999 (42 of 1999).

4. The directions shall come into effect from June 1, 2020 and replace the existing directions in Part A - Section I and II and Part D of the Master Direction on Risk Management and Interbank Dealings dated July 5, 2016, as amended from time to time.

5. The following reports prescribed in Part E of the Master Directions on Risk Management and Inter-Bank Dealings dated July 5, 2016, as amended from time to time, shall stand withdrawn from the date that these directions come into effect.

1. Cross Currency Derivative Transactions (Half yearly) – Annex IV
2. Report on Booking of Forward Contracts on Past Performance Basis (Monthly) – Annex X
3. Details of Forward cover undertaken by FPI clients (Monthly) – Annex XIII
4. Details of Forward Contracts/Options booked and cancelled by SMEs and Resident Individuals, Firms and Companies within the first week of the following month (Quarterly) – Annex XIV
5. Derivative Transactions undertaken by Non-Resident Importer/Exporter (Quarterly) – Annex XIX

6. The directions contained in this circular have been issued under Sections 10(4) and 11(1) of the Foreign Exchange Management Act, 1999 (42 of 1999) and are without prejudice to permissions/ approvals, if any, required under any other law.

**Risk Management and Inter-bank Dealings – Hedging of Foreign Exchange Risk-Date of Implementation**

RBI/2019-20/232 A.P.(DIR Series) Circular No.31 May 18, 2020

To

Authorised Dealers Category – I

A reference is invited to the Directions on Hedging of Foreign Exchange Risk issued vide A.P. (DIR Series) Circular No. 29 dated April 7, 2020. The Directions were to come into effect from June 1, 2020.

2. Based on the requests received from market participants and in the context of the difficulties arising from the outbreak of novel coronavirus disease (COVID-19), it has been decided that the Directions will now come into effect from September 1, 2020.

3. Directions on the participation of Banks in Offshore Non-deliverable Rupee Derivative Markets issued vide A.P. (DIR Series) Circular No. 23 dated March 27, 2020 will come into effect from June 1, 2020, as hitherto.

4. The Directions contained in this circular have been issued under Sections 10(4) and 11(1) of the Foreign Exchange Management Act, 1999 (42 of 1999) and are without prejudice to permissions/ approvals, if any, required under any other law.

**Basel III Framework on Liquidity Standards – Net Stable Funding Ratio (NSFR)**

RBI/2019-20/187 DOR.BP.BC.No.46/21.04.098/2019-20 March 27, 2020

All Scheduled Commercial Banks (excluding RRBs)

Please refer to paragraph 8 of Statement on Developmental and Regulatory Policies of Seventh Bi-monthly Monetary Policy Statement, 2019-20 dated March 27, 2020 and our circular DBR.BP.BC.No.08/21.04.098/2018-19 dated November 29, 2018 on final Net Stable Funding Ratio (NSFR) guidelines.

2. On a review, it has now been decided to defer the implementation of NSFR guidelines by six months. These guidelines will now come into effect from October 1, 2020 as against April 1, 2020.

**Basel III Capital Regulations - Review of transitional arrangements**

RBI/2019-20/188 DOR.BP.BC.No.45/21.06.201/2019-20 March 27, 2020

All Scheduled Commercial Banks (Excluding RRBs and LABs)

As announced in para 9 of the Statement on Developmental and Regulatory Policies issued along with the Seventh Bi-monthly Monetary Policy Statement 2019-20, the implementation of the last tranche of 0.625% of Capital Conservation Buffer (CCB) shall stand deferred from March 31, 2020 to September 30, 2020.

2. Accordingly, minimum capital conservation ratios in para 15.2.2 of Part D ‘Capital Conservation Buffer Framework’ of Master Circular, DBR.No.BP.BC.1/21.06.201/2015-16 dated July 1, 2015 on ‘Basel III Capital Regulations’, as applicable from March 31, 2018, will also apply for a further period of six months from March 31, 2020 till the CCB attains the level of 2.5% on September 30, 2020.

3. Further, the pre-specified trigger for loss absorption through conversion / write-down of Additional Tier 1 instruments (PNCPS and PDI) shall remain at 5.5% of RWAs and will rise to 6.125% of RWAs on September 30, 2020.

**Basel III Framework on Liquidity Standards – Liquidity Coverage Ratio (LCR)**

RBI/2019-20/217 DOR.BP.BC.No.65/21.04.098/2019-20 April 17, 2020

All Commercial Banks

(excluding Regional Rural Banks, Local Area Banks and Payments Banks)

Please refer to our circular DBOD.BP.BC.No.120/21.04.098/2013-14 dated June 9, 2014 and associated circulars thereon.

2. As part of post Global Financial Crisis (GFC) reforms, Basel Committee on Banking Supervision (BCBS) had introduced Liquidity Coverage Ratio (LCR), which requires banks to maintain High Quality Liquid Assets (HQLAs) to meet 30 days net outgo under stressed conditions. Further, as per Banking Regulation Act, 1949, the banks in India are required to hold liquid assets to maintain Statutory Liquidity Ratio (SLR). In view of the fact that liquid assets under SLR and HQLAs under LCR are largely the same, we have been allowing banks to use a progressively increasing proportion of the SLR securities for being considered as HQLAs for LCR so that the need to maintain liquid assets for both the requirements is optimised.

3. At present the assets allowed as Level 1 High Quality Liquid Assets (HQLAs), inter alia, includes among others within the mandatory SLR requirement, Government securities to the extent allowed by RBI under (i) Marginal Standing Facility (MSF) and (ii) Facility to Avail Liquidity for Liquidity Coverage Ratio (FALLCR) [15 per cent of the bank's NDTL with effect from April 1, 2020]. Given that SLR has now been reduced to 18 per cent of NDTL from April 11, 2020, and with increase in MSF from 2 per cent to 3 per cent of the banks’ NDTL (with effect from March 27, 2020 and applicable upto June 30, 2020), entire SLR-eligible assets held by banks are now permitted to be reckoned as HQLAs for meeting LCR.

4. Further, banks1 are required to maintain LCR of 100 per cent with effect from January 1, 2019. In order to accommodate the burden on banks’ cash flows on account of the Covid19 pandemic, banks are permitted to maintain LCR as under:

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| --- | --- |
| From date of circular to September 30, 2020 - | 80 per cent |
| Oct 1, 2020 to March 31, 2021 - | 90 per cent |
| April 1, 2021 onwards - | 100 per cent |

Banks shall prepare LCR restoration plans upon breach of the aforesaid prescribed LCR requirement, for scrutiny by the Department of Supervision, Reserve Bank of India.