**CAIIB: Bank Financial Management**

**RBI Notifications during the period**

**1st July 2020 to 31st Dec 2020**

**Resolution Framework for COVID-19-related Stress**

RBI/2020-21/16 DOR.No.BP.BC/3/21.04.048/2020-21

August 6, 2020

All Commercial Banks (including Small Finance Banks, Local Area Banks and Regional Rural Banks) /All Primary (Urban) Co-operative Banks/State Co-operative Banks/ District Central Co-operative Banks/All All-India Financial Institutions /All Non-Banking Financial Companies (including Housing Finance Companies)

The Reserve Bank of India (Prudential Framework for Resolution of Stressed Assets) Directions 2019, dated June 7, 2019 (“Prudential Framework”) provides a principle-based resolution framework for addressing borrower defaults under a normal scenario. Any resolution plan implemented under guidelines of “Prudential Framework”1 which involves granting of any concession on account of financial difficulty of the borrower entails an asset classification downgrade, except when it is accompanied by a change in ownership, which allows the asset classification to be retained as or upgraded to Standard, subject to the prescribed conditions.

2. The economic fallout on account of the Covid-19 pandemic has led to significant financial stress for borrowers across the board. The resultant stress can potentially impact the long-term viability of many firms, otherwise having a good track record under the existing promoters, due to their debt burden becoming disproportionate relative to their cash flow generation abilities. Such wide spread impact could impair the entire recovery process, posing significant financial stability risks.

3. Considering the above, with the intent to facilitate revival of real sector activities and mitigate the impact on the ultimate borrowers, it has been decided to provide a window under the Prudential Framework to enable the lenders to implement a resolution plan in respect of eligible corporate exposures without change in ownership, and personal loans, while classifying such exposures as Standard, subject to specified conditions. The details of the facility are given in the Annex.

4. The lending institutions shall ensure that the resolution under this facility is extended only to borrowers having stress on account of Covid19. Further, the lending institutions will be required to assess the viability of the resolution plan, subject to the prudential boundaries laid out in this Annex. Towards this end, each lending institution shall put in place a Board approved policy detailing the manner in which such evaluation may be done and the objective criteria that may be applied while considering the resolution plan in each case.

5. Accounts which do not fulfill the required eligibility conditions to be considered for resolution under this framework may continue to be considered for resolution under the Prudential Framework, or the relevant instructions as applicable to specific category of lending institutions where the Prudential Framework is not applicable.

6. While the Prudential Framework is otherwise not applicable to certain categories of lending institutions to which this circular is addressed, exposures of these lending institutions shall also be included for any resolution under this facility. Consequently, without prejudice to the specific conditions applicable to this facility, all the norms applicable to implementation of a resolution plan, including the mandatory requirement of Inter-Creditor Agreements (ICA) and specific implementation conditions, as laid out in the Prudential Framework shall be applicable to all lending institutions for any resolution plan implemented under this facility. Terms used in this document, to the extent not defined herein, shall have the same meaning assigned to them in the Prudential Framework.

Link for Detailed Circular:

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11941&Mode=0>

**Resolution Framework for COVID-19-related Stress – Financial Parameters**

RBI/2020-21/34 DOR.No.BP.BC/13/21.04.048/2020-21

September 7, 2020

All Commercial Banks (including Small Finance Banks, Local Area Banks and Regional Rural Banks)/ All Primary (Urban) Co-operative Banks/State Co-operative Banks/ District Central Co-operative Banks/All All-India Financial Institutions/All Non-Banking Financial Companies (including Housing Finance Companies)

Please refer to Paragraphs 23 and 24 of the Annex to the circular DOR.No.BP.BC/3/ 21.04.048/2020-21 dated August 6, 2020 (“Resolution Framework”) which envisages constitution of an Expert Committee by the Reserve Bank to make recommendations on the required financial parameters with sector specific benchmark ranges for such parameters to be factored in the resolution plans in respect of borrowers eligible under Part B of the Annex to the Resolution Framework.

2. The Reserve Bank had accordingly set up an Expert Committee with Shri K. V. Kamath as the Chairperson, as announced in the press release dated August 7, 2020. The Expert Committee has since submitted its recommendations to the Reserve Bank on September 4, 2020, which have been broadly accepted by the Reserve Bank.

3. Accordingly, all lending institutions shall mandatorily consider the following key ratios while finalizing the resolution plans in respect of eligible borrowers under Part B of the Annex to the Resolution Framework.

Link for Detailed Circular:

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11961&Mode=0>

**Basel III Capital Regulations – Treatment of debt mutual funds/ETFs**

RBI/2020-21/18 DOR.No.BP.BC/5/21.04.201/2020-21

August 6, 2020

All Scheduled Commercial Banks (Excluding Local Area Banks and Regional Rural Banks)

Please refer to our circular DBR.No.BP.BC.1/21.06.201/2015-16 dated July 1, 2015, on Basel III capital regulations.

2. In terms of para 8.4.1 of the circular, capital charge for equities is applicable to units of mutual funds. It has now been decided that the banks investing in debt mutual fund/exchange traded fund (ETF) with underlying comprising of (i) Central, State and Foreign Central Governments’ bonds (ii) Bank’s Bonds and (iii) Corporate Bonds (other than Bank Bonds) shall compute capital charge for market risk as under:

a) Investment in debt mutual fund/ETF for which full constituent debt details are available shall attract general market risk charge of 9 per cent, as hitherto. Specific risk capital charge for various kinds of exposures would be applied as detailed below:

|  |  |  |
| --- | --- | --- |
| **Sr. No.** | **Nature of debt securities/issuer** | **Table to be followed (details in**[**Annex**](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11943&Mode=0#A_1)**)** |
| a | Central, State and Foreign Central Governments’ bonds | Table 16 – Part B |
| b | Banks’ Bonds | Table 16 – Part D |
| c | Corporate Bonds (other than Bank Bonds) | Table 16 - Part E(ii) |

b) In case of debt mutual fund/ETF which contains a mix of the above debt instruments, the specific risk capital charge shall be computed based on the lowest rated debt instrument/ instrument attracting the highest specific risk capital charge in the fund.

c) Debt mutual fund/ETF for which constituent debt details are not available, at least as of each month-end, shall continue to be treated on par with equity for computation of capital charge for market risk as prescribed in para 8.4.1 of Master Circular on Basel III Capital Regulations.

Link for Detailed Circular:

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11943&Mode=0>

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

RBI/2020-21/42 DOR.BP.BC.No15/21.06.201/2020-21

September 29, 2020

All Commercial Banks (Excluding Small Finance Banks, Payment Banks, RRBs and LABs)

Please refer to circular DOR.BP.BC.No.45/21.06.201/2019-20 dated March 27, 2020 on ‘Basel III Capital Regulations - Review of transitional arrangements’.

2. In view of the continuing stress on account of COVID-19, it has been decided to defer the implementation of the last tranche of 0.625 per cent of the Capital Conservation Buffer (CCB) from September 30, 2020 to April 1, 2021. Accordingly, the 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’, shall continue to apply till the CCB attains the level of 2.5 per cent on April 1, 2021.

3. The pre-specified trigger for loss absorption through conversion / write-down of Additional Tier 1 instruments (Perpetual Non-Convertible Preference Shares and Perpetual Debt Instruments), shall remain at 5.5 per cent of risk weighted assets (RWAs) and will rise to 6.125 per cent of RWAs from April 1, 2021.

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

RBI/2020-21/43 DOR.BP.BC.No.16/21.04.098/2020-21

September 29, 2020

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

Please refer to our circular DOR.BP.BC.No.46/21.04.098/2019-20 dated March 27, 2020 on Net Stable Funding Ratio (NSFR) guidelines.

2. In view of the continued uncertainty on account of COVID-19, on a review, it has been decided to defer the implementation of NSFR guidelines by a further period of six months. These guidelines shall now come into effect from April 1, 2021.

**Foreign Exchange Management (Export and Import of Currency) (Amendment) Regulations, 2020**

Notification No. FEMA 6 (R)/(2)/2020-RB

August 11, 2020

In exercise of the powers conferred by clause (ga) of sub- section (2) of Section 47 of the Foreign Exchange Management Act, 1999 (42 of 1999), the Reserve Bank of India makes the following amendments to the Foreign Exchange Management (Export and Import of Currency) Regulations, 2015 (Notification No. FEMA 6 (R)/RB-2015 dated December 29, 2015) (hereinafter referred to as 'the Principal Regulations'), namely: —

1. Short title & Commencement:

1. These Regulations may be called the Foreign Exchange Management (Export and Import of Currency) (Amendment) Regulations, 2020.
2. They shall come into force from the date of their publication in the Official Gazette.

2. Amendment to Regulation 3

In the Principal Regulations, in Regulation 3, sub- regulation 1, the portion beginning with “Without prejudice to the provisions of sub-regulation (1)” and ending with “currency notes of Government of India and/or of Reserve Bank of India subject to the terms and conditions as the Bank may stipulate” shall be omitted.

3. Insertion of new Regulation 9

In the Principal Regulations, after Regulation 8, the following new regulation shall be inserted, namely, -

“9. Reserve Bank’s power to permit export or import of currency: Notwithstanding anything contained in these regulations, the Reserve Bank may, on an application made to it and on being satisfied that it is necessary to do so, allow any person to take or send out of India to any country or bring into India from any country currency notes of Government of India and /or of Reserve Bank of India subject to such terms and conditions as the Reserve Bank may stipulate.”

**External Trade – Facilitation - Export of Goods and Services**

RBI/2020-21/77 A.P. (DIR Series) Circular No. 08

December 04, 2020

To,

All Category - I Authorised Dealer Banks

Please refer to the Statement on Development and Regulatory Polices announced as part of Bi-monthly Monetary Policy Statement dated December 4, 2020. With a view to further enhance the ease of doing business and quicken the approval process, it has been decided to delegate more powers to the Authorised Dealer Category – I banks (AD banks)…

Link for Detailed Circular:

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12005&Mode=0>

**SLR holdings in HTM category (Amended)**

RBI/2020-21/29 DoR.No.BP.BC.9/21.04.141/2020-21

September 1, 2020

All Commercial Banks

Please refer to our circulars DBR.No.BP.BC.6/21.04.141/2015-16 dated July 1, 2015 read with DBR.No.BP.BC.65/21.04.141/2015-16 dated December 10, 2015 and DBR.No.Ret.BC.90/12.02.001/2017-18 dated October 4, 2017 on the subject.

2. Currently, banks are permitted to exceed the limit of 25 per cent of the total investments under Held to Maturity (HTM) category, provided the excess comprises only of SLR securities and total SLR securities held under HTM category is not more than 19.5 per cent of NDTL as on the last Friday of the second preceding fortnight. On a review, it has been decided to allow banks to hold under HTM category, SLR securities acquired on or after September 1, 2020 up to an overall limit of 22 per cent of NDTL, up to March 31, 2021, which shall be reviewed thereafter.

**SLR holdings in HTM category**

RBI/2020-2021/54 DoR.No.BP.BC.22/21.04.141/2020-21

October 12, 2020

All Commercial Banks

Please refer to paragraph 2 of Statement on Developmental and Regulatory Policies of the Monetary Policy Statement, 2020-21 dated October 9, 2020 and our circular DoR.No.BP.BC.9/21.04.141/2020-21 dated September 1, 2020 on the above subject.

2. Banks are permitted to exceed the limit of 25 per cent of the total investments under Held to Maturity (HTM) category provided the excess comprises only of SLR securities and total SLR securities held under HTM category is not more than 19.5 per cent of Net Demand and Time Liabilities (NDTL) as on the last Friday of the second preceding fortnight. Banks are, vide our circular dated September 1, 2020 referred to above, allowed to hold under HTM category, SLR securities acquired on or after September 1, 2020 up to an overall limit of 22 per cent of NDTL, up to March 31, 2021. It has now been decided to extend the dispensation of the enhanced HTM limit of 22 percent, for SLR securities acquired between September 1, 2020 and March 31, 2021, up to March 31, 2022, i.e. banks may continue to hold such excess SLR securities in HTM category upto March 31, 2022.

3. It has also been decided that the enhanced HTM limit shall be restored to 19.5 per cent in a phased manner, beginning from the quarter ending June 30, 2022, i.e. the excess SLR securities acquired by banks during the period September 1, 2020 to March 31, 2021 shall be progressively reduced such that the total SLR securities held in the HTM category as a percentage of the NDTL does not exceed:

1. 21.00 per cent as on June 30, 2022
2. 20.00 per cent as on September 30, 2022
3. 19.50 per cent as on December 31, 2022

4. As per extant instructions, banks may shift investments to/from HTM with the approval of the Board of Directors once a year and such shifting will normally be allowed at the beginning of the accounting year. However, in order to enable banks to shift their excess SLR securities from the HTM category to AFS/HFT to comply with the instructions as indicated in paragraph 3 above, it has been decided to allow such shifting of the excess securities during the quarter in which the HTM ceiling is brought down. This would be in addition to the shifting permitted at the beginning of the accounting year.

**Introduction of Liquidity Adjustment Facility (LAF) and Marginal Standing Facility (MSF) for Regional Rural Banks (RRBs)**

RBI/2020-21/76 DOR.RRB.No.28/31.01.001/2020-21

December 4, 2020

All Regional Rural Banks

In order to provide an additional avenue for liquidity management to Regional Rural Banks (RRBs), it has been decided that Liquidity Adjustment Facility (LAF) and Marginal Standing Facility (MSF) will be extended to Scheduled RRBs meeting the following criteria:

1. Implemented Core Banking Solution (CBS)
2. There is a minimum CRAR of nine per cent and
3. Fully compliant with the terms and conditions for availing LAF and MSF issued by Financial Markets Operations Department (FMOD), Reserve Bank of India.

2. The names of RRBs which meet the eligibility norms to participate in LAF and MSF (Positive List) and of those RRBs found ineligible (Negative List) will be intimated to the banks concerned. The eligibility status of the banks will be reviewed on an ongoing basis.

3. The effective date from which the RRBs will be eligible to avail of LAF and MSF will be intimated separately.

**Regional Rural Banks - Access to Call/Notice/Term Money Market**

RBI/2020-21/78 FMRD.DIRD.01/14.01.001/2020-21

December 04, 2020

All Eligible Market Participants

A reference is invited to the Statement of Developmental and Regulatory Policies dated December 4, 2020 wherein it was announced that Regional Rural Banks (RRBs) shall be permitted to participate in the call/notice/term money market.

2. Accordingly, RRBs shall be permitted to participate in the call/notice and term money markets both as borrowers and lenders. The prudential limits and other guidelines on call/notice/term money markets for the RRBs shall be the same as those applicable to Scheduled Commercial Banks in terms of the RBI Master Direction No.2/2016-17, dated July 7, 2016 on Money Market Instruments: Call/Notice Money Market, Commercial Paper, Certificates of Deposit and Non-Convertible Debentures (original maturity up to one year), as amended from time to time. RRBs may approach the Chief General Manager, Financial Market Regulation Department, Reserve Bank of India Central Office, 9th floor, Central Office building, Shahid Bhagat Singh Marg, Fort, Mumbai-400 001 (cgmfmrd@rbi.org.in) in this regard.

3. These Directions have been issued by RBI in exercise of the powers conferred under section 45W of the Reserve Bank of India Act, 1934 and of all the powers enabling it in this behalf.

4. These Directions shall be applicable with immediate effect.

**FAQs on Resolution Framework for Covid-19 related stress (Revised on December 12, 2020)**

Link for FAQ:

<https://www.rbi.org.in/scripts/FAQView.aspx?Id=137>