February Roundup

Week ending – 23.02.2021
(GOVERNMENT NOTIFICATIONS, CIRCULARS & ANNOUNCEMENTS)

SKV Law Offices

1. RBI Issues Notification for Margin for Derivative Contracts for all Category-I Banks
15.02.2021

On 15.02.2021, the Reserve Bank of India (**RBI**) issued a Notification for Margin Derivative Contracts for all Category-I Banks (**Cat-I**). Category-I banks are those banks with an RBI license to buy and sell foreign exchange for specified purposes. Directions are presently being issued to allow posting and collection of margin for permitted derivative contracts between a person resident in India and a person resident outside India. The Directions currently given state that Cat-I banks may post and collect margin in India, on their own account or on behalf of their customers, for a permitted derivative contract entered into with a person resident outside India in the form of:

- Indian currency
- Freely convertible foreign currency
- Debt securities issued by Indian Central Government and State Governments
- Rupee bonds issued by persons resident in India which are:

    a. Listed on a recognized stock exchange in India; and
    b. Assigned a credit rating of AAA issued by a rating agency registered with the Securities and Exchange Board of India. If different ratings are accorded by two or more credit rating agencies, then the lowest rating shall be reckoned.

AD Cat-I banks may post and collect such margin outside India in the form of:

i. Freely convertible foreign currency; and
ii. Debt securities issued by foreign sovereigns with a credit rating of AA- and above issued by S&P Global Ratings / Fitch Ratings or Aa3 and above issued by Moody's Investors Service. If different ratings are accorded by two or more credit rating agencies, then the lowest rating shall be reckoned.

Further directions read to state that Cat-I banks may receive and pay interest on margin posted and collected on their own account or on behalf of their customers for a permitted derivative contract entered into with a person resident outside India. Also, AD Cat-I banks shall maintain a separate account in the name of persons resident outside India for the purpose of posting and collecting cash margin in India, and transactions incidental thereto.

Please find link to Notification here

2. RBI Permits Remittances by Resident Individuals under Liberalised Remittance Scheme to IFSCs
16.02.2021

On 16.02.2021, the Reserve Bank of India (**RBI**) decided to permit resident individuals to make remittances under Liberalised Remittance Scheme (**LRS**) to IFSC's set up in India under the Special Economic Zone Act, 2005. In order to boost the financial markets in IFSCs and give opportunities to resident individuals to strengthen their portfolio, the guidelines on LRS have been reviewed. The following conditions shall be imposed by the AD category – I banks before allowing the remittance:

1. The remittance shall be made only for making investments in IFSCs in securities, other than those issued by entities/companies resident (outside IFSC) in India.

2. Resident Individuals may also open a non interest bearing Foreign Currency Account (**FCA**) in IFSCs, for making the above permissible investments under LRS. Any funds lying idle in the account for a period upto 15 days from the date of its receipt into the account shall be immediately repatriated to domestic INR account of the investor in India.
3. Resident Individuals shall not settle any domestic transactions with other residents through these FCAs held in IFSC.

Please find link to Letter here

3. RBI Eases Guidelines for Computation of Data for UFCE

17.02.2021

On 17.02.2021, the Reserve Bank of India (**RBI**) issued a letter to all scheduled commercial banks regarding the capital and provisioning requirements for exposures to entities with Unhedged Foreign Currency Exposure (**UFCE**). The guidelines issued on 03.06.2014, mandate that information on IFCE may be obtained by banks from entities on a quarterly basis, on self-certification basis, and should be internally audited by the entity concerned. However, the RBI has received various representations from banks expressing their inability to obtain UFCE certificates from listed entities for the latest quarter due to restrictions on disclosure of such information prior to finalisation of accounts. Accorridngly, the RBI has decided that in such cases, banks may use data pertaining to the immediately preceding quarter for computing capital and provisioning requirements in case of UFCE.

Please find link to letter here

4. Non-Banking Financial Company-Housing Finance Company (Reserve Bank) Directions, 2021

17.02.2021

The Reserve Bank of India (**RBI**) has notified the Non-Banking Financial Company-Housing Finance Company (Reserve Bank) Directions, 2021 in order to regulate the financial system prevent the affairs of any Housing Finance Company (**HFCs**) from being conducted in a manner detrimental to the interest of investors and depositors or in any manner prejudicial to the interest of such HFCs. As per the definition provided an HFC is a Non-Banking Financial Company (**NBFC**) whose financial assets, in the business of providing finance for housing, constitute at least 60% of its total assets

Some of the salient provisions of the Directions are as follows:

- All deposit taking HFCs with the asset size of Rs. 100 crore and above and all deposit taking HFCs (irrespective of asset size) shall pursue liquidity risk management, which inter alia should cover adherence to gap limits, making use of liquidity risk monitoring tools and adoption of stock approach to liquidity risk.
- HFCs shall maintain a liquidity buffer in terms of liquidity coverage ratio (**LCR**) which shall boost their resilience to potential liquidity disruptions by ensuring that they have sufficient high-quality liquid asset (**HQLA**) to survive acute liquidity stress scenario lasting for 30 days.
- The Board of each HFC is expected to ensure the enforceability of these guidelines.
- Non-deposit taking HFCs with an asset size of Rs. 5,000 crore and above but less than Rs. 10,000 crores will have to reach a minimum LCR of 30% by 01.12.2021 and to 100% by 01.12.2025.
- Any shortfall in the maintenance of the 50% of the loan-to-value (**LTV**) occurring on account of movement in the share price shall be made good within seven working days.
- For loans granted against the collateral of gold jewellery, HFCs shall maintain an LTV ratio not exceeding 75%.

Please find link to Circular and Guidelines here

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