



February 2023 FEDAI NEWS LETTER

Monetary Policy Committee's Resolution

https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=55178
https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=55179

MPC in its meeting held on 6th to 8th February 2023 decided to increase the policy repo rate by 25 BPS to 6.50%. Accordingly, the Standing Deposit Facility (SDF) rate is also revised to 6.25% and the Marginal Standing Facility (MSF) and the Bank Rates to 6.75%.

RBI based on review undertaken for levy of penal interest said in its 'Statement on Developmental and Regulatory Policies' that intent of penal interest was essentially to inculcate a sense of credit discipline among borrowers through negative incentives and not revenue enhancement tool over and above the contracted rate of interest. In the above context RBI decided that any penalty for delay/default in servicing of the loan or any other non-compliance of material terms and conditions of loan contract by the borrower shall be in the form of 'penal charges' rather than in the form of 'penal interest'. Draft guidelines to the above effect shall be placed on RBI website shortly, for comments from stakeholders.

Governance, measurement and management of Interest Rate Risk

https://www.rbi.org.in/Scripts/BS_CircularIndexDisplay.aspx?Id=12456

RBI issued the final guidelines on Interest Rate Risk in Banking Book (IRRBB), in alignment with the revised framework issued by the Basel Committee on Banking Supervision (BCBS) which inter alia require banks to measure, monitor, and disclose their exposure to IRRBB. The RBI expects Banks to have a clearly defined Board approved risk appetite statement, articulated in terms of the risk to both economic value and earnings, which lays down policies and procedures for limiting and controlling IRRBB. Banks should also develop and implement an effective stress testing framework for IRRBB as part of their broader risk management and governance processes.

Draft Guidelines - Min Capital Requirements for Mkt Risk under Basel III

https://www.rbi.org.in/Scripts/bs_viewcontent.aspx?Id=4238

RBI released the 'Draft Guidelines' on February 17, 2023 and invited comments from all stakeholders by April 15, 2023. The draft guidelines envisage, irrespective of the reporting frequency, banks shall meet the capital requirements for market risk on a continuous basis i.e. at the close of each business day. Also, Banks shall maintain strict risk management systems to monitor and control intraday exposures to market risk which comprises of interest rate risk and equity risk for trading book instruments and Fx risk (including gold and precious metals) for trading book and banking book instruments.

ESMA: Recognition of CCPs Established in India

<https://www.esma.europa.eu/sites/default/files/library/ESMA71-99-2097%20ESMA%20Indian%20CCPs.pdf>

European Banks operating in India impacted by October 31, 2022 announcement by the European Securities and Markets Authority (ESMA), the EU's financial markets regulator and supervisor, to derecognize six central counterparties (CCPs) established in India got some respite as European authorities decided to extend the time line by 18 months.

Development in Payment and Settlement

https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=55260

https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=55263

Hon'ble Prime Ministers of India and Singapore witnessed the launch of cross-border linkage between India and Singapore using their respective Fast Payment Systems, viz. Unified Payments Interface (UPI) & PayNow. The UPI-PayNow linkage has enabled users in either country to make convenient, safe, instant and cost-effective cross-border fund transfers using their respective mobile apps. To begin with, SBI, Indian Overseas Bank, Indian Bank and ICICI Bank will facilitate both inward and outward remittances while Axis Bank and DBS India will facilitate inward remittances.

In line with the announcement made by RBI on February 8, 2023, the facility enabling all in-bound travellers visiting India to make local payments using Unified Payments Interface (UPI) while they are in India is made functional. To start with, it is available to travelers from G-20 countries, at select international airports and eligible travellers were issued Prepaid Payment Instruments (PPI) wallets linked to UPI for making payments at merchant outlets that accept QR Code-based UPI payments.

FATF Plenary, 22-24 February 2023

<https://www.fatf-gafi.org/en/publications/FatfGeneral/outcomes-fatf-plenary-february-2023.html>

FATF suspends membership of the Russia in its plenary held on 22-24 February 2023. Among other decisions, FATF has made it a priority to improve the transparency of beneficial ownership, and to prevent criminals, the corrupt and sanctions evaders from hiding their illegal activities and assets behind anonymous shell companies, other businesses or legal arrangements as a strategic initiative in the meeting. Cambodia and Morocco have now been dropped from the list of jurisdictions under high monitoring; however, rest of existing 23 countries continued to be there in gray list.

ICC News

ICC released Set of Guidance Papers on Recommended Principles and Usages around UCP 600 Rules, same is available on their website www.iccwbo.org

Upcoming Market Events

- RBI MPC Meeting April 3, 5 and 6th, 2023
 - FOMC Meeting 21st to 22nd March 2023
 - ECB Monetary Policy Meeting 16th March 2023
- 17th FEDAI Annual Conference is scheduled from 04th to 07th March, 2023 at CAIRO, Egypt

FEDAI workshops & training activities

- 13th March 2023 – Monthly discussion on New Regime of Overseas Investment
- 14th to 15th March 2023 - Two Days Workshop (Classroom) on "Treasury and Fx Market"

Market News

- Mr. K. Satyanarayana Raju took over as MD & CEO of Canara Bank on Feb. 07, 2023, prior to this he was Executive Director of the Bank since March 10, 2021.
- Mr. Prabdev Singh has taken charge as CEO, JP Morgan Chase & Co (India)
- Mr. Parameswaran Iyer, CEO of Niti Aayog is appointed as Executive Director, World Bank, Mr. B. V. R. Subrahmanyam replaced him at Niti Aayog.
- GoI has formulated 'Action Plan for Champion Sectors in Services' to give focused attention to 12 identified services sectors. <https://www.pib.gov.in/PressReleasePage.aspx?PRID=1898023>
- RBI issued FAQ on introduction of Legal Entity Identifier for Cross-border Transactions on February 7, 2023. https://www.rbi.org.in/scripts/FS_FAQs.aspx?Id=154&fn=5
- RBI has restored market hours for G-Sec market to pre COVID timing of 9:00 AM to 5:00 PM
- RBI vide Press release dated Feb. 10, 2023 issued updated Alert List, the list of entities/websites promoting unauthorized entities/electronic trading platforms (ETPs) for forex transactions, for information to public at large.

MPC Resolution

Measurement & Mgmt of IRR

Mkt Risk Guidelines

ESMA: Recognition of Indian CCPs

Payment & Settlement

FATF Plenary

ICC News

Market Events

Market News

ICC - UCPDC 600

Commentary on Art.5/6

Article 5: Banks deal with documents and can't be held responsible for the goods, services or performances to which any document relates to.

Article 6: The primary function of a letter of credit is to provide payment security for an international trade transaction along with the opportunity for banks to provide financing there under.

UCP 600 has specific rules as to how LC can be made available with banks to facilitate payment and permit financing.

An LC must nominate the bank with which it is available or whether it is available with any bank (freely available). A credit available with a nominated bank is also available with the issuing bank, which means beneficiary may present documents to the nominated bank or issuing bank, but within the expiry of LC.

Where a credit is available by sight payment or negotiation, the use of a draft is optional and it is for the issuing bank and applicant to decide at the time of issuance of the LC whether or not a draft is needed.

An LC available by 'deferred payment' is one where the beneficiary will receive the funds after a fixed period of time (e.g. 90 days from the date of shipment) or on a fixed date. No drafts (bill of exchange) are to be used in deferred payment LCs.

An LC available by 'acceptance' is one where the beneficiary will receive the funds after a fixed period of time (e.g. 90 days from the date of shipment) or on a fixed date. The LC will call for a draft presented together with the documents.

Draft on the applicant would be treated as any other required document – therefore the LC must state the requirements for such document.

An expiry date stated for honour or negotiation will be deemed to be an expiry date for presentation. Where a credit states that it is available with a nominated bank and that the expiry date is at the place of the nominated bank, the expiry date would also apply to a presentation made directly to the issuing bank.