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भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

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Statement on Developmental and Regulatory Policies

This Statement sets out various developmental measures including liquidity and regulatory measures.

I. Liquidity Measures

1. On Tap TLTRO Scheme – Extension of Deadline

With a view to increasing the focus of liquidity measures on revival of activity in specific sectors that have both backward and forward linkages and having multiplier effects on growth, the RBI had announced the On Tap TLTRO scheme on October 9, 2020 for five sectors which was available up to March 31, 2021. Stressed sectors identified by the Kamath Committee were also brought within the ambit of the scheme on December 4, 2020 and subsequently bank lending to NBFCs on February 5, 2021. On April 7, the scheme was extended by a period of six months, *i.e.*, till September 30, 2021. Given the nascent and fragile economic recovery, it has now been decided to extend the On Tap TLTRO scheme further by a period of three months, *i.e.*, till December 31, 2021.

2. Marginal Standing Facility (MSF) - Extension of Relaxation

On March 27, 2020 banks were allowed to avail of funds under the marginal standing facility (MSF) by dipping into the Statutory Liquidity Ratio (SLR) up to an additional one per cent of net demand and time liabilities (NDTL), *i.e.*, cumulatively up to 3 per cent of NDTL. This facility, which was initially available up to June 30, 2020 was later extended in phases up to March 31, 2021 and again for a further period of six months till September 30, 2021, providing comfort to banks on their liquidity requirements and also to enable them to meet their Liquidity Coverage Ratio (LCR) requirements. This dispensation provides increased access to funds to the extent of ₹1.62 lakh crore and qualifies as high-quality liquid assets (HQLA) for the LCR. It has now been decided to continue with the MSF relaxation for a further period of three months, *i.e.*, up to December 31, 2021.

II. Regulatory Measures

3. LIBOR Transition - Review of Guidelines

The London Interbank Offered Rate (LIBOR) transition is a significant event that poses challenges for banks and the financial system. RBI has issued an advisory on June 8, 2021 encouraging banks and other RBI regulated entities to cease entering into new contracts that use LIBOR as a reference rate and instead adopt any Alternative Reference Rate (ARR) as soon as practicable and in any event by December 31, 2021. The Reserve Bank has been engaging with banks and market bodies to proactively take steps, as necessary, to ensure a smooth transition for regulated entities and financial markets. In this context, it has been decided to amend the guidelines related to export credit in foreign currency and restructuring of derivative contracts as detailed below.

(i) Export Credit in Foreign Currency – Benchmark Rate

Authorized dealers are currently permitted to extend Pre-shipment Credit in Foreign Currency (PCFC) to exporters for financing the purchase, processing, manufacturing or packing of goods prior to shipment at LIBOR / EURO-LIBOR / EURIBOR related rates of interest. In view of the impending discontinuance of LIBOR as a benchmark rate, it has been decided to permit banks to extend export credit using any other widely accepted Alternative Reference Rate in the currency concerned.

(ii) Prudential Norms for Off-balance Sheet Exposures of Banks – Restructuring of Derivative Contracts

For derivative contracts, as per extant instructions, change in any of the parameters of the original contract is treated as a restructuring and the resultant change in the mark-to-market value of the contract on the date of restructuring is required to be cash settled. Since the impending change in reference rate from LIBOR is a "*force majeure*" event, banks are being advised that change in reference rate from LIBOR / LIBOR-related benchmarks to an Alternative Reference Rate will not be treated as restructuring.

4. Deferral of Deadline for Achievement of Financial Parameters under Resolution Framework 1.0

The resolution plans implemented under the Resolution Framework for COVID-19 related stress announced on August 6, 2020 are required to meet the sector specific thresholds notified in respect of five financial parameters, four of which are related to the operational performance of the borrowing entity, viz. Total Debt to EBIDTA ratio (Total Debt/EBIDTA), Current Ratio, Debt Service Coverage Ratio and Average Debt Service Coverage Ratio, by March 31, 2022. Recognising the adverse impact of second wave of COVID-19 on revival of businesses, and the difficulty it may pose in meeting the operational parameters, it has been decided to defer the target date for meeting the specified thresholds in respect of the above parameters to October 1, 2022.

As regards the parameter Total Outside Liabilities/Adjusted Total Net Worth (TOL/ATNW), this ratio reflects the revised capital structure (*i.e.*, debt-equity mix) as required under the implementation conditions for the resolution framework and was expected to be crystallised upfront as part of the resolution plan. Accordingly, the date for achieving the same remains unchanged, i.e. March 31, 2022.

A circular to this effect, modifying the previous instructions dated September 7, 2020, will be issued shortly.

(Yogesh Dayal)
Chief General Manager

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