RBI UPDATES

1) Voluntary Retention Route (VRR) for Foreign Portfolio Investor (FPI) Investment in Debt:

On **February 10, 2022,** RBI vide Circular No. RBI/2021-22/156 introduced a separate channel called "**Voluntary Retention Route (VRR)**" to enable FPIs to invest in debt markets in India.Investments through VRR will be free of the macro-prudential and other regulatory norms which are applicable to FPI investments in debt markets, provided FPIs voluntarily commit to retain a required minimum percentage of their investments in India for a period. Participation through VRR will be entirely voluntary.

Brief details of the Scheme are mentioned below:

Eligible Investors:
Any FPI registered with SEBI is eligible to participate voluntarily through VRR.

Eligible Investments:
Under VRR Govt route:
FPIs will be eligible to invest in any Government Securities such as Central Govt dated Securities, T-Bills, State Development Loans.
Under VRR Corp route:
FPIs may invest in any instrument listed in Foreign Exchange Management (Debt Instruments) Regulations, 2019 under Schedule 1 other than those specifies in Schedule 1A(a) and 1A(d). However, investment in Exchange Traded Fund investing in debt instruments only is permitted.
Under VRR Combined:
Repo transactions, and reverse repo transactions.

Features:

a. Investment through VRR shall be in addition to the General Investment Limit. Investment under VRR shall be capped at ₹2,50,000 crore or higherwhich shall be allocated among VRR-Govt, VRR-Corp and VRR-Combined as decided by RBI from time to time. The investment limit shall be released in one or more tranches.
b. Allocation of investment amount to FPIs under VRR will be made on tap or through auctions.
c. The mode of allotment, allocation to various categories and the minimum retentionperiod will be announced by RBI ahead of allotment.
d. No FPI (including its related FPIs) will be allotted an investment limit greater than 50% of the amount offered for each allotment by tap or auction in case there is a demand for more than 100% of amount offered.
e. The minimum retention period shall be 3 years or as decided by RBI for each allotment by tap or auction.
f. FPIs shall invest the amount allocated i.e.**Committed Portfolio Size (CPS)** in the relevant debt instruments and remain invested at all times during the voluntary retention period. However, following relaxation has been provided:

- The minimum investment of an FPI during the retention period shall be 75% of the CPS

- The required investment amount shall be adhered to on an end-of-day basis. For this purpose, investment shall include cash holdings in the Rupee accounts used for VRR.
- FPIs may at their discretion, transfer their investments made under the General Investment Limit to the VRR scheme, if any.

g. Amounts of investment shall be reckoned in terms of the face value of securities

Management of Portfolio:

a. Successful allottees in VRR shall invest at least 75% of their **Committed Portfolio Size(CPS)** within 3 months from the date of allotment.
b. Prior to the end of the committed retention period, FPI may opt to continue investments under VRR for an additional identical retention period and it is required to convey its decision to its Custodian.
c. In case FPI decides not to continue under VRR at the end of the retention period, FPI may

(i) liquidate its portfolio and take exit;
(ii) shift its investments to the 'General Investment Limit', subject to availability of limit under the 'General Investment Limit';
(iii) hold its investments until its date of maturity or until it is sold, whichever is earlier.

d. FPIs that wish to exit their investments, fully or partly, under VRR prior to the end of the retention period may do so by selling their investments to another FPI or FPIs. The FPI/ FPIs buying such investment shall abide by all the terms and conditions applicable to the selling FPI under the Route.
e. Any violation by FPIs shall be subjected to regulatory action as determined by SEBI. FPIs are permitted, with the approval of the custodian, to regularize minor violations immediately upon notice or within 5 working days of the violation. Custodians shall report all non-minor violations as well as minor violations that have not been regularised to SEBI.

Other Relaxation:

Investments made through VRR shall not be subject to any minimum residual maturity requirement, concentration limit or single/group investor-wise limits applicable to corporate bonds. Income from investments through VRR may be reinvested at the discretion of the FPI. Such investments will be permitted even in excess of the CPS.

Access to other facilities:

FPIs investing through VRR will be eligible to participate in repos for their cash management provided the amount lent or borrowed under repo shall not exceed 10% of FPIs investment under VRR. FPIs investing under VRR will be eligible to use any currency or interest rate derivative instrument, OTC or exchange traded, to manage their interest rate risk or currency

Other Operational Risk:

- Utilisation of limits and adherence to other requirements of VRR shall be the responsibility of both the FPI and its custodian.
- Custodians shall not permit any repatriation from the cash accounts of an FPI, if such transaction leads to the FPI's assets falling below the minimum stipulated level of 75% of CPS during the retention period.
- Custodians shall have in place appropriate legal documentation with FPIs that enables the Custodians to ensure that regulations under VRR are adhered to.

- FPIs shall open one or more separate Special Non-Resident Rupee (SNRR) account for investment through VRR. All fund flows relating to investment through VRR shall reflect in such account(s).
- FPIs may open a separate security account for holding debt securities under VRR.

Auction process for allocation of investment amount under VRR is also provided in detail in the said Circular.

The link for aforesaid Circular is mentioned below:
https://rbidocs.rbi.org.in/rdocs/notification/PDFs/NOTI1568FB1320A4A304297BF1E900F5225209C.PDF

2) Master Circular - Asset Reconstruction Companies (ARC):

On **February 10, 2022**, RBI vide **Circular No. RBI/2021-22/154** issued a Master Circular on Asset Reconstruction Companies.

In order to have all current instructions/ guidelines on ARC at one place, RBI issued an updated circular/ guideline. This Master Circular consist of the instructions contained in The Asset Reconstruction Companies (Reserve Bank) Guidelines and Directions, 2003 together with various Guidance Notes issued by RBI.

The provisions of these guidelines/ instructions shall apply to ARCs registered with RBI under Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002. ARCs covered by Rule 4 of the Companies (Indian Accounting Standards) Rules, 2015 are required to comply with Indian Accounting Standards (Ind AS) for the preparation of their financial statements.

The link for aforesaid Press Release is mentioned below:
https://rbidocs.rbi.org.in/rdocs/notification/PDFs/154MCASSETRECONSTRUCTIONE00512D59CB949929BAC4484415667C3.PDF

3) Transaction in Credit Default Swap by Foreign Portfolio Investor (FPI)—Operational Instructions:

On **February 10, 2022**, RBI vide **Circular No. RBI/2021-22/155** issued a direction regarding operational instructions for FPIs regarding transactions in Credit Default Swap (CDS). These Directions shall come into effect from May 09, 2022.

FPIs are categorised as non-retail users and have been allowed to buy and sell CDS protection under the Credit Derivatives Directions. Selling of CDS protection by all FPIs shall be subject to a limit specified by RBI from time to time. The aggregate limit of the notional amount of CDS sold by FPIs shall be 5% of the outstanding stock of corporate bonds.

Clearing Corporation of India Limited (CCIL) shall disseminate the utilisation of aggregate limit based on the reporting by the market makers for transactions in OTC market and reporting by stock exchanges for transactions on exchanges. FPIs shall not sell any CDS protection once aggregate limit is utilised. The limit utilised for CDS protection sold by the FPI shall be released upon the exit of the CDS position by the FPIs.

Debt instruments received by FPIs as deliverable obligation and debt instruments purchased by FPIs for meeting deliverable obligation in physical settlement of CDS contracts shall be reckoned under the investment limits for corporate bonds. In case of non-availability of investment limit at the time of physical settlement, such debt instruments shall be adjusted against the revised limits in the subsequent review of investment limits.

The notional amount of protection sold by FPIs, and the debt instruments received as deliverable obligation as well as debt instruments purchased for meeting deliverable obligation by FPIs in physical settlement of CDS contracts shall not be subject to minimum residual maturity requirement / short-term limit, concentration limit or single/group investor-wise limits applicable to FPI investment in corporate bonds.

The link for aforesaid Press Release is mentioned below:
https://rbidocs.rbi.org.in/rdocs/notification/PDFs/NT155313449400B2E4ACB834FF9D5C9FEB917.PDF

4) New Definition of Micro, Small and Medium Enterprises – Clarification:

On **February 18, 2022**, RBI vide **Circular No. RBI/2021-2022/161** requested to refer to the circular **FIDD.MSME & NFS.BC.No.4/06.02.31/2020-21** dated **June 25, 2021** on 'New Definition of Micro, Small and Medium Enterprises'.

Government of India, vide their Gazette Notification S.O.278(E) dated January 19, 2022, has notified amendments in paragraph (7) sub-paragraph (3) in the notification of Government of India, Ministry of Micro, Small and Medium Enterprises number S.O. 2119 (E), dated June 26, 2020, published in the Gazette of India.

In view of the above amendment, paragraph 2.2 (I) of RBI circular dated June 25, 2021 stands modified as under:
The existing Entrepreneurs Memorandum (EM) Part II and Udyog Aadhaar Memorandum (UAM) of the MSMEs obtained till June 30, 2020 shall remain valid till March 31, 2022.

The link for aforesaid Circular is mentioned below:
https://egazette.nic.in/WriteReadData/2022/233551.pdf

5) Implementation of 'Core Financial Services Solution' by Non-Banking Financial Companies (NBFCs):

On **February 23, 2022**, RBI vide **Circular No. RBI/2021-2022/175** issued a Circular on implementation of 'Core Financial Services Solution' by Non-Banking Financial Companies (NBFCs).

As per the Scale Based Regulation (SBR): A Revised Regulatory Framework for NBFCs', NBFCs with 10 and more branches are mandated to adopt Core Banking Solution.

Accordingly, NBFCs – Middle Layer and NBFCs - Upper Layer with 10 and more 'Fixed point service delivery units' as on October 1, 2022 are mandatorily required to implement 'Core Financial Services Solution (CFSS) similar to the Core Banking Solution (CBS) adopted by banks.

The CFSS shall provide for seamless customer interface in digital offerings and transactions relating to products and services with anywhere/ anytime facility, enable integration of NBFCs' functions, provide centralised database and accounting records, and be able to generate suitable MIS, both for internal purposes and regulatory reporting.

The timeframe for implementation of the above requirement shall be as under:

Category of NBFC	Timeframe for implementation
NBFC – Middle and Upper Layers with 10 or more 'Fixed point service delivery units'	On or before September 30, 2025 However, NBFC-UL shall ensure that the CFSS is implemented at least in 70 per cent of 'Fixed point service delivery units' on or before September 30, 2024.
NBFC – Base Layer and NBFC – Middle and Upper Layers with fewer than 10 'Fixed point service delivery units'	Not mandatory. However, they may consider implementation of a Core Financial Services Solution for their own benefit.

A quarterly progress report on implementation of the Core Financial Services Solution, along with various milestones as approved by the Board / Committee of the Board, shall be furnished by the NBFC to the Senior Supervisory Manager (SSM) Office of RBI starting from quarter ending March 31, 2023.

The link for aforesaid Circular is mentioned below:
https://rbidocs.rbi.org.in/rdocs/notification/PDFs/NOT175E28A758924C047D29651D40A0E90F952.PDF

****