CNK
& ASSOCIATES LLP
CHARTERED ACCOUNTANTS

Quarterly Insights , April 2023

FEMA and RBI

Summmary of Contents

Foreign Exchange Management Act,1999 (FEMA)

Bilateral trade settlement using Special Vostro Account

The RBI has vide its erstwhile Circular no. 10 of dated 11th July 2022 introduced a new mechanism to enable international trade for invoicing, payment, and settlement of exports/imports transactions in Indian rupee (INR). This was done using Special Vostro Account, pursuant to RBI approval via the AD bank, Russia being the first for Rupee- Rouble transaction. The Government has now expanded this facility to 18 other countries namely Tanzania, Bostwana, Fiji, Germany, Guyana, Israel, Malaysia, Mauritius, Myanmar, New Zealand, Oman, Seychelles, Singapore, Sri Lanka, United Kingdom, Kenya and Uganda can use their national currencies for bilateral trade settlement which will boost efficiency and increase exports and imports.

Pursuant to this, DGFT has incorporated the same relaxation in its Foreign Trade Policy. This policy is not aimed at any specific country and is only a step to make INR a convertible currency. It's a matter of time, other countries will also onboard to this facility, which will eventually lead to reduction on dependency to US dollars and lower exchange rate risk, since the transactions will be settled in INR.

Reserve Bank of India (RBI)

Discussion Paper on introduction of Expected Credit Loss Framework for Provisioning by Banks

Publication dated 16th January 2023

The RBI has released this Discussion Paper that comprehensively examines various issues and proposes a framework for adoption of an expected loss-based approach for provisioning by banks in India.

Presently, banks are required to make loan loss provisions based on an "incurred loss" approach which is prescribed in the Prudential norms on Income Recognition, Asset Classification, and Provisioning pertaining to Advances issued by the RBI. The gist of this approach is that banks need to provide for losses that have occurred / incurred. This approach led to the delay in recognizing loan losses which resulted in banks having to make higher levels of provisions and which in turn affected their resilience and posed systemic risks. To further enhance the resilience of the banking system, the RBI proposes to amend the prudential regulations governing loan loss provisioning by banks to incorporate the more forward-looking Expected Credit Loss **(ECL)** approach as against the extant "incurred loss" approach.

The ECL approach for loss provisioning will be applicable to all scheduled commercial banks, excluding regional rural banks. The RBI proposes to adopt the ECL approach used in IFRS 9 *Financial Instrument* for prescribing guidelines for loss provisioning by banks. It is proposed that the requirement for estimating impairment losses under the ECL approach would apply to all financial assets held by banks having the following characteristics:

- The financial asset is held by the bank with the objective of collecting contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Liquidity Adjustment Facility- Change in rates

RBI/2022-23/175 dated 8th Februrary 2023

As announced in the Monetary Policy Statement dated 8th February 2023, it has been decided by the Monetary Policy Committee **(MPC)** to increase the policy repo rate under the Liquidity Adjustment Facility **(LAF)** by 25 basis points from 6.25% to 6.50% with immediate effect.

Consequently, the standing deposit facility (SDF) rate and marginal standing facility (MSF) rate stand adjusted to 6.25% and 6.75% respectively, with immediate effect.

Change in Bank Rate

RBI/2022-23/174 dated 8th February 2022

As announced in the Monetary Policy Statement 2022-23 dated 8th February 2023, the Bank Rate is revised upwards by 25 basis points from 6.50% to 6.75% with immediate effect.

All penal interest rates on shortfall in reserve requirements, which are specifically linked to the Bank Rate, also stand revised as given below:

Item	Existing Rate	Revised Rate
Penal interest rates on shortfalls in reserve requirements (depending on duration of shortfalls)	Bank Rate plus 3% points (9.5%) or Bank Rate plus 5% points (11.5%)	Bank Rate plus 3% points (9.75%) or Bank Rate plus 5% points (11.75%)

Standing Liquidity Facility for Primary Dealers

RBI/2022-23/173 dated 8th February 2023

As announced in the Monetary Policy Statement 2022-23, the MPC has decided to increase the policy repo rate under the LAF by 25 basis points from 6.25% to 6.5% with immediate effect.

Accordingly, the Standing Liquidity Facility provided to Primary Dealers (PDs) (collateralised liquidity support) from the RBI would be available at the revised repo rate of 6.5% with immediate effect.

RBI (Financial Statements - Presentation and Disclosures) Directions, 2021 – Disclosures for State Co-operative Banks and Central Co-operative Banks

RBI/2022-23/181 dated 20th February 2023

The RBI has decided to make the RBI (Financial Statements-Presentation and Disclosures) Directions, 2021 **(Master Direction)** also applicable to State Cooperative Banks and Central Cooperative Banks (also referred to as District Central Co-operative Banks).

The Master Direction will apply to State and Central Cooperative Banks (together referred to as Rural Co-operative Banks or RCBs) mutatis mutandis, unless explicitly specified otherwise, from the financial year **(FY)** ending 31st March 2023. Certain disclosure requirements specified in Annex III-A of the Master Direction will be applicable, to RCBs, from the FY ending 31st March 2024.

Implementation of Indian Accounting Standards (Ind AS)

RBI/2022-23/182 dated 20th February 2023

The RBI has been observed that consequent to the implementation of Ind AS, some Asset Reconstruction Companies **(ARCs)** have been recognising management fees even though the said fee had not been realised for more than 180 days.

To address the prudential concerns arising from continued recognition of unrealised income, the RBI has been decided that ARCs preparing their financial statements **(FSs)** as per Ind AS, should reduce the following amounts from their net owned funds **(NOFs)** while calculating the Capital Adequacy Ratio and the amount available for payment of dividend:

a) Management fee recognised during the planning period that remains unrealised beyond 180 days from the date of expiry of the planning period.
b) Management fee recognised after the expiry of the planning period that remains unrealised beyond 180 days of such recognition.
c) Any unrealised management fees, notwithstanding the period for which it has remained unrealised, where the net asset value of the Security Receipts has fallen below 50% of the face value.

The amount reduced from NOFs and amount available for payment of dividend will be net of any specific ECL allowances held on unrealised management fee referred to in sub-paragraphs (a), (b) and (c) and the tax implications thereon, if any.

The Audit Committee of the Board should review the extent of unrealised management fee and satisfy itself on the recoverability of the same while finalising the FSs. It should be ensured that the management fee is computed strictly in accordance with extant regulations.

ARCs should disclose information on the ageing of the unrealised management fee recognised in their books in given format as part of the Notes to Accounts in the annual FSs.

This Circular is applicable to all ARCs preparing their FSs as per Ind AS.

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