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C&M Alert: GOVERNOR OF RESERVE BANK OF INDIA ANNOUNCES ADDITIONAL MEASURES TO COUNTER IMPACT DUE TO COVID-19

Reserve Bank of India (**RBI**) Governor Shaktikanta Das, in the press conference held today (i.e. 17 April 2020) at 10 AM IST, announced certain additional measures (in addition to the ones announced on 27 March 2020 and 1 April 2020) to be undertaken in order to achieve the following objectives:[1]

A. To maintain adequate liquidity in the system and its constituents in the face of COVID-19 related dislocations;
B. To facilitate and incentivize bank credit flows;
C. To ease financial stress; *and*
D. To enable formal functioning of the markets.

The additional measures as announced by the Governor have been briefly listed out below:

Category	Measures
Liquidity Management	• Undertaking targeted long-term repo operation 2 (**TLTRO 2.0**) for amount of INR 50,000 Crores to begin with in tranches of appropriate sizes (RBI may step up and modify this amount as per the requirement). • To ensure flow to mid to small corporates including without limitations non-banking financial institutions (**NBFC**). • The funds availed by the banks under TLTRO 2.0 should be invested in investment grade bonds, commercial papers and non-convertible debentures of NBFCs, with at-least 50% of the total amount going to mid-sized NBFCs and micro financial institutions (**MFI**). These investments have to be made within 1 month of availing liquidity from RBI, as in the case of earlier TLTRO auctions conducted so far. Investments made by banks under this facility will be classified as held-to-maturity (**HTM**) even in excess of 25% of total investments permitted to be included in HTM portfolio. Exposures under this facility are also not to be reckoned under the large exposure framework.
Refinancing Facilities	• To provide special refinance facilities for a total amount of INR 50,000 Crores for all India financial institutions i.e. NABARD, SIDBI and NHB, in order to meet sectoral credit needs:

[1] A complete copy of the RBI Governor's statement dated 17 April 2020 is available here.

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<tr><th>Category</th><th>Measures</th></tr>
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<tr><th>Financial Institution</th><th>Facility Amount</th><th>Purpose</th></tr>
<tr><td>NABARD</td><td>INR 25,000 Crores</td><td>Refinancing regional rural banks (RRB), cooperative banks and MFIs.</td></tr>
<tr><td>SIDBI</td><td>INR 15,000 Crores</td><td>On-lending and refinancing to scheduled commercial banks, NBFCs and MFIs (that sanction loans to the MSMEs segment of the economy)</td></tr>
<tr><td>NHB</td><td>INR 10,000 Crores</td><td>To support housing finance companies (HFC)</td></tr>
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If there is an additional requirement, the RBI will assess the situation and review it to take further measures to step up the current level of liquidity support.
Advances under these facilities will be charged as per the RBI policy repo rate of 4.40%.

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<tr><td>Liquidity Adjustment Facility (LAF)</td><td>

In order to encourage the banks to deploy the surplus funds in investments and loans in productive sectors of the economy, it has been decided to reduce the fixed rate reverse repo rate by 25 basis points – from 4% to 3.75%, with immediate effect.
Additional notes:

The policy repo rate however remains unchanged at 4.4%.
The marginal standing facility rate and bank rate remain unchanged at 4.65%.

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<tr><td>Ways and Means Advances (WMA)[2] for States</td><td>

On 01 April 2020, RBI had announced an increase in the WMA limit of states by 30%. It has now been decided to increase the WMA limit by 60%, to provide greater comfort to the States for undertaking COVID-19 containment and mitigations efforts. This will also assist the States to plan their market borrowing programs in a systematic manner.
The increase limit will be available till 30 September 2020.

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<tr><td>Regulatory Measures</td><td>
Based on a review of the rapidly evolving situation, and consistent with the globally coordinated action committed to by the Basel Committee on Banking Supervision to alleviate the impact of Covid19 on the global banking system, the following additional regulatory measures are being announced:
Asset Classification
<ol type="i">
In respect of all accounts for which lending institutions decide to grant moratorium or deferment, and which were standard as on 1 March 2020, the 90-day NPA norm shall exclude the moratorium period, i.e., there would an asset classification standstill for all such accounts from 1 March 2020 to 31 May 2020.

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[2] The Ways and Means Advances (WMA) provided by the Reserve Bank of India to the States are governed by Section 17(5) of the Reserve Bank of India Act, 1934. WMAs are intended to provide a cushion to the States to carry on their essential activities despite mismatches on fiscal transactions and to avoid disruptions to the normal and necessary financial operations of the State.

Category	Measures
	ii. NBFCs, which are required to comply with Indian Accounting Standards, may be guided by the guidelines duly approved by their boards and as per advisories of the Institute of Chartered Accountants of India in recognition of impairments. In other words, NBFCs have flexibility under the prescribed accounting standards to consider such relief to their borrowers. iii. Bank will have to maintain higher provision of 10 % on all such accounts under the standstill, spread over two quarters, i.e., March, 2020 and June, 2020. These provisions can be adjusted later on against the provisioning requirements for actual slippages in such accounts.
	Extension of Resolution Timeline Recognizing the challenges to resolution of stressed assets in the current volatile environment, it has been decided that the period for resolution plan shall be extended by 90 days.
	Distribution of Dividend Scheduled commercial banks and co-op banks will not make any further dividend payouts from profits pertaining to financial year 2020 until further instructions. This restriction shall be reviewed on the basis of the financial position of banks for the quarter ending September 30, 2020.
	Liquidity Coverage Ratio (**LCR**)[3] • LCR requirement for scheduled commercial banks is being brought down to 80% from 100% with immediate effect. • The requirement shall be gradually restored back in two phases – 90% by 1 October 2020 and 100 % by 01 April 2021.
	NBFCs Loans to Commercial Real Estate Projects In terms of the extant guidelines for banks, the date for commencement for commercial operations (DCCO) in respect of loans to commercial real estate projects delayed for reasons beyond the control of promoters can be extended by an additional one year, over and above the one-year extension permitted in normal course, without treating the same as restructuring. It has now been decided to extend a similar treatment to loans given by NBFCs to commercial real estate.

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[3] The LCR promotes short-term resilience of banks to potential liquidity disruptions by ensuring that they have sufficient high-quality liquid assets (HQLAs) to survive an acute stress scenario.

Should you have any queries or comments on this alert or how COVID 19 may affect your business or transactions, please visit our [LinkedIn page] or drop a line to our COVID – 19 task force at covid19@chandhiok.com. You may also reach out to:

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