

INDIA JURIS

RBI Releases Draft Guidelines on Loan System for Delivery of Bank Credit

The Reserve Bank of India (RBI) on 11 June, 2018 vide Circular No. RBI /2017-18 / DBR. No. BP. BC...../21.04.048/2017-18 released draft guidelines on loan system for delivery of bank credit which stipulate a minimum level of 'loan component' in fund based working capital finance and a mandatory Credit Conversion Factor (CCF) for the undrawn portion of cash credit/ overdraft limits availed by large borrowers, with a view to enhancing credit discipline among large borrowers.

Banks provide working capital finance by way of cash credit/overdraft, working capital demand loan, purchase/discount of bills, bank guarantee, letter of credit, factoring, etc. Cash credit (CC) is by far the most popular mode of working capital financing. While CC has its benefits, it also poses several regulatory challenges such as perpetual roll overs, transmission of liquidity management from the borrowers to banks/RBI, hampering of smooth transmission of monetary policy, etc. Comments on the draft guidelines are invited from banks and other stakeholders by June 26, 2018.

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SEBI Reviews Investment by Foreign Portfolio Investors (FPI) in Debt

SEBI vide Circular No. *IMD/FPIC/CIR/P/2018/101* dated *June 15, 2018* has made changes to operational aspects of Foreign Portfolio Investors (FPI) in debt. The circular has been issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992. It has been decided to withdraw minimum residual maturity restriction of three years for investment by FPIs in G-Secs and SDLs. Further, the auction process being carried out by BSE/ NSE shall be discontinued from the date of this circular.

Till date, depositories were monitoring the G-Sec/ SDLs utilization limits and reporting to SEBI. Henceforth, the overall monitoring of G-Sec/ SDLs will be done by Clearing Corporation of India Limited (CCIL). Thus, any circular previously issued by SEBI from time to time for monitoring of G-Sec and SDLs stands withdrawn and hence, shall not be applicable to FPIs for investments in G-Secs and SDLs from June 1, 2018. However, FPIs may be guided by RBI circular dated June 15, 2018 referred above for the requirements of G-Secs and SDLs.

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