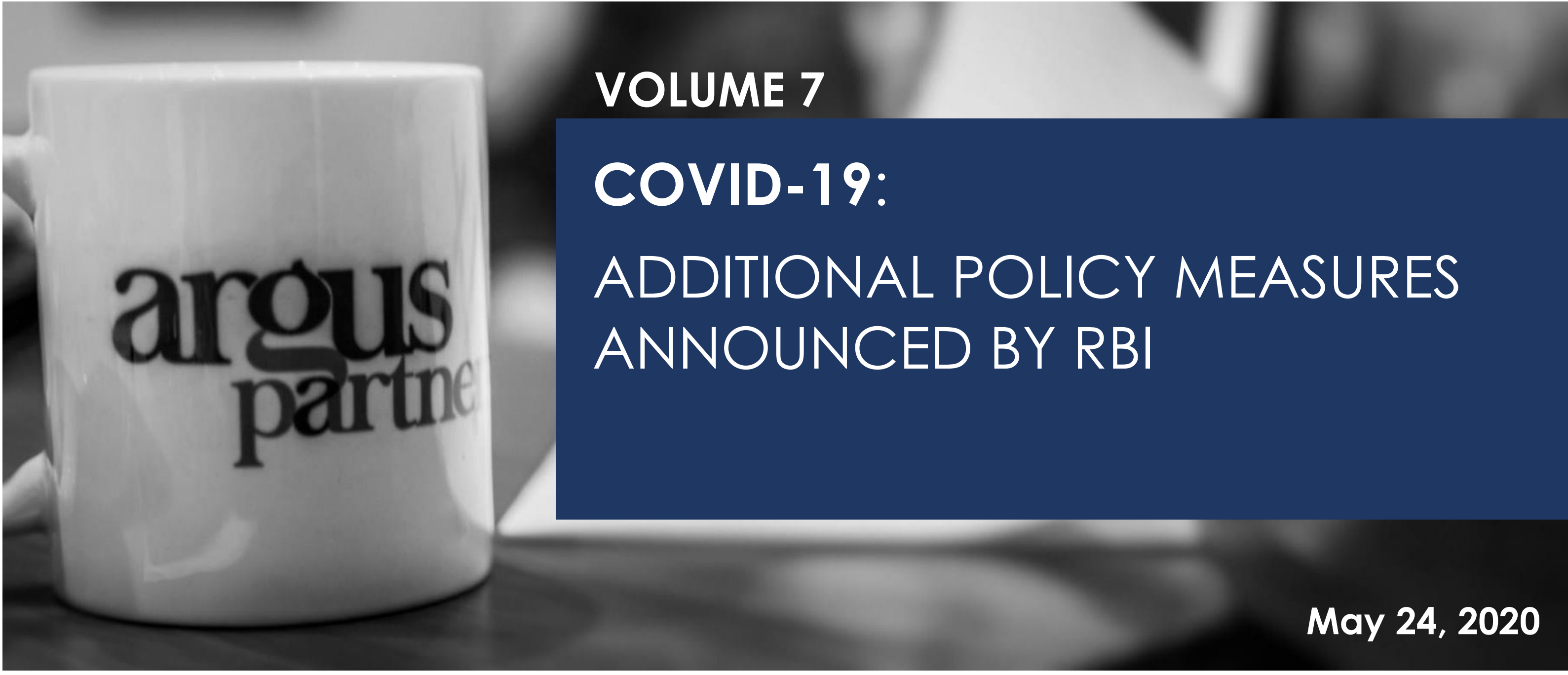

VOLUME 7

COVID-19: ADDITIONAL POLICY MEASURES ANNOUNCED BY RBI

May 24, 2020

Introduction

On May 22, 2020, the Reserve Bank of India ("**RBI**") issued a 'Statement on Developmental and Regulatory Policies' setting out certain additional developmental and regulatory policies as well as revisions to certain earlier measures with a view to improve the functioning of markets, to support exports and imports and to ease the financial stress and constraints, caused due to the COVID-19 pandemic. In line with the aforesaid statement, various notifications have been subsequently issued by RBI.

Prior to this, on March 27, 2020 and April 17, 2020, RBI had announced certain relaxations, which we had summarised in our earlier updates which can be found here – http://www.argus-p.com/papers-publications/thought-paper/covid-19-relaxations-announced-by-rbi/ and http://www.argus-p.com/papers-publications/thought-paper/covid-19-further-regulatory-measures-announced-by-rbi/. In this update, we have summarised some of the key developmental and regulatory policies announced by RBI on May 22, 2020.

Measures to improve functioning of markets

Investments by Foreign Portfolio Investors ("FPIs") under the Voluntary Retention Route ("VRR")

As per the extant guidelines, FPIs are required to invest at least 75% (seventy five percent) of their 'Committed Portfolio Size' (CPS) within 3 (three) months from the date of allotment of the investment limits.

In relation to FPIs that have been allotted investment limits, between January 24, 2020 (the date of reopening of allotment of investment limits) and April 30, 2020, an additional time period of 3 (three) months has been granted by RBI for such investment, *vide* notification (RBI/2019-20/239) dated May 22, 2020.

For FPIs availing the additional time as aforesaid, the retention period for the investments (committed by them at the time of allotment of investment limit) would be reset to commence from the date that such FPI invests 75% (seventy five percent) of its CPS.

Measures to Support Exports and Imports

Extension of time for payment for imports

As per the extant 'Master Direction on Import of Goods and Services', dated January 1, 2016, remittances for normal imports (excluding import of gold/ diamonds and precious stones/ jewelry) into India are required to be completed within a period of 6 (six) months from the date of shipment by the overseas supplier, except in cases where amounts are withheld towards guarantee of performance etc.

With a view to provide flexibility to importers to manage their operating cycles, *vide* notification (RBI/2019-20/242) dated May 22, 2020, RBI has extended the time period for completion of outward remittances against normal imports from 6 (six) months to 12 (twelve) months from the date of shipment for such imports made on or before July 31, 2020.

Export Credit

In order to alleviate the difficulties faced by exporters in their production and realisation cycles, RBI has increased the maximum permissible period of pre-shipment and post-shipment export credit sanctioned by banks, from the existing 1 (one) year period to 15 (fifteen) months, for disbursements made up to July 31, 2020, *vide* notification (RBI/2019-20/246) dated May 23, 2020.

Measures to Ease Financial Stress

Moratorium on Term Loan Instalments

In terms of the 'COVID-19 – Regulatory Package' issued by RBI on March 27, 2020 ("**Regulatory Package**"), banks, all-India financial institutions and non-banking financial companies ("**NBFCs**") (including housing finance companies and microfinance institutions) ("**Lenders**") were permitted to grant a moratorium of 3 (three) months on payment of all instalments in respect of term loans falling due between March 1, 2020 and May 31, 2020.

In view of the extension of the lockdown, RBI has, *vide* notification (RBI/2019-20/244) dated May 23, 2020 ("**Revised Regulatory Package**"), permitted Lenders to extend such moratorium period by another 3 (three) months, i.e. till August 31, 2020. Accordingly, the repayment schedule and all subsequent due dates, as also the tenor for such loans, may be shifted by an additional period of 3 (three) months. However, interest would continue to accrue on the outstanding portion of such term loans during the moratorium period.

Deferment of Interest on Working Capital Facilities

In relation to working capital facilities sanctioned in the form of cash credit/ overdraft, the Regulatory Package allowed the Lenders to defer recovery of interest in respect of facilities sanctioned during the period from March 1, 2020 up to May 31, 2020.

Pursuant to the Revised Regulatory Package, Lenders have now been permitted to allow a further deferment of 3 (three) months, till August 31, 2020, on payment of interest.

With a view to mitigate any hardship that may be faced by borrowers in making a bullet payment of such accumulated interest for the deferment period (up to August 31, 2020), Lenders have been permitted, at their discretion, to convert such accumulated interest into a funded interest term loan ("**FITL**") which shall be repayable not later than March 31, 2021.

Easing of Working Capital Financing

In relation to the easing of working capital financing, under the Regulatory Package, Lenders were permitted to recalculate the 'drawing power' by reducing the margins and/ or by reassessing the working capital cycle. Such relief was made available in respect of all such changes effected up to May 31, 2020.

Pursuant to the Revised Regulatory Package, such period has now been extended to August 31, 2020. Further, it has been clarified that, in all such cases where such a temporary enhancement in drawing power is considered, the margins shall be restored to the original levels by March 31, 2021.

Further, Lenders have been permitted to review the working capital sanctioned limits up to March 31, 2021, based on a reassessment of the working capital cycle.

Additionally, accounts which avail relief under the Revised Regulatory Package would be subject to subsequent supervisory review with regard to their justifiability.

Asset Classification

It has been reiterated by RBI in the Revised Regulatory Package that the moratorium on term loans/ deferment for working capital facilities, in respect of accounts classified as standard as on February 29, 2020, will be excluded for the purpose of calculation of the days past-due and determination of out of order status.

Further, the conversion of the accumulated interest into FITL as mentioned above, and the changes in the credit terms permitted to the borrowers as mentioned above, will not be treated as concessions granted due to financial difficulty of the borrower, and consequently, will not result in asset classification downgrade.

Further, it has also been reiterated that rescheduling of payments, as aforesaid, will not qualify as a default for the purposes of supervisory reporting and reporting to credit information companies ("**CICs**") by the Lenders. CICs are required to ensure that the actions taken by the Lenders pursuant to the announcements made by RBI do not adversely impact the credit history of the borrowers.

NBFCs, which are required to comply with Indian Accounting Standards (IndAS), can follow the guidelines duly approved by their boards and advisories of the Institute of Chartered Accountants of India (ICAI) in recognition of impairments. Accordingly, NBFCs have flexibility under the prescribed accounting standards to consider such relief to their borrowers.

Extension of Resolution Timeline

With respect to the 'Prudential Framework for Resolution of Stressed Assets' dated June 7, 2019 ("**Prudential Framework**"), *vide* notification (RBI/2019-20/219) dated April 17, 2020, RBI had allowed the period from March 1, 2020 to May 31, 2020 to be excluded from the calculation of review period of 30 (thirty) days. Further, in respect of accounts where the review period was over, but the resolution period of 180 (one hundred eighty) days had not expired as on March 1, 2020, the timeline for resolution of such accounts was allowed to be extended by 90 (ninety) days.

In this regard, *vide* notification (RBI/2019-20/245) dated May 23, 2020, RBI has permitted the aforesaid timelines to be further extended. In relation to accounts which were within the review period as on March 1, 2020, the period from March 1, 2020 to August 31, 2020 would be excluded from the calculation of the 30-day timeline and the residual review period would resume from September 1, 2020. Further, in respect of accounts where the review period was over, but the resolution period of 180 (one hundred eighty) days had not expired as on March 1, 2020, the timeline would get extended by a further period of 180 (one hundred eighty) days from the date on which the 180-day period was originally set to expire.

It has been reiterated by RBI that the requirement of making additional provisions as per the Prudential Framework would be triggered as and when the extended resolution period expires.

Limit on Group Exposures under the Large Exposures Framework

Under the extant guidelines, the exposure of a bank to a group of connected counterparties is not permitted to be more than 25% (twenty five percent) of the bank's eligible capital base. To address the difficulty being faced by corporates in raising funds from the capital market and increased reliance on funding from banks, RBI has increased such exposure limit to 30% (thirty percent), as a one-time measure, *vide* notification (RBI/2019-20/243) dated May 23, 2020. Such increased limit will be applicable up to June 30, 2021.

This update has been contributed by Aastha (Partner), Shradha Rakhecha and Ashwarya Bhargava (Associates).

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