Regulating the Pandemic: RBI Regulatory Package 2.0

Christened as 'The Great Lockdown'[1] (vis-à-vis The Great Depression of the 1930s), the International Monetary Fund (IMF) has projected a global economy contraction of - 3 per cent in 2020.[2] In a bid to stimulate national economies, central banks the world over, including the Reserve Bank of India (**"RBI"**), have rolled out a slew of measures to tackle the economic fallout of the COVID-19 pandemic. In the first phase of measures announced on 27th March 2020 by Mr. Shaktikanta Das, Governor, RBI, relaxations were provided to borrowers including, a moratorium on repayment of dues outstanding as on 1st March 2020, standstill of asset classification and deferment of payment of interest accruing during the operation of the moratorium. There was some confusion as regards whether borrowing by non-banking finance companies (**"NBFCs"**) will be part of such relaxations. However, based on information available on public domain, it appears as if this now stands settled, and the benefit will be applicable for NBFCs borrowings as well.

In a press conference held on 17th April 2020, the RBI Governor announced additional mitigating measures.[3] Following the press conference, several related notifications were issued by the RBI. The 'Regulatory Package 2.0' targets: (i) at maintaining adequate liquidity in the Indian economy and its constituents; (ii) to facilitate and incentivise banks to increase cash flow in the market; (iii) to ease financial stress across sectors; and (iv) to enable normal functioning of markets. While we are expecting further notification / circulars to be issued by the RBI in this regard, please see our brief analysis of the measures announced in round two by the RBI.

1) Relief to NBFCs and AIFIs[4]

(a) Phase-I of the targeted long-term repo operations (**"TLTRO"**) has been aimed to provide system level liquidity by way of infusion of **INR 750 billion** into the banking system. This will benefit the public sector undertakings and large corporations. Phase-II of TLTRO is specifically targeted towards small and mid-sized NBFCs, with asset size up to **INR 50 billion**, and microfinance institutions (**"MFIs"**);

(b) At least 50 per cent of the total amount availed are earmarked for such financial institutions i.e. 10 per cent for MFIs, 15 per cent for small NBFCs with asset size below **INR 5 billion** and 25 per cent for NBFCs with an asset size of **INR 5 billion** to **INR 50 billion**. The tranche-wise infusion of an aggregate of **INR 500 billion** shall be facilitated by way of funds raised through investment in commercial papers, investment grade bonds and non-convertible debentures of NBFCs;

(c) The benefits of the RBI notification on Prudential Norms on Income Recognition, Asset Classification and Provisioning Pertaining to Advances - Projects under Implementation dated 7th February 2020 has been extended to NBFCs. Accordingly, if the date for

[1] https://blogs.imf.org/2020/04/14/the-great-lockdown-worst-economic-downturn-since-the-great-depression/
[2] https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020
[3] https://rbidocs.rbi.org.in/rdocs/Content/PDFs/GOVERNORSTATEMENTF22E618703AE48A4B2F6-EC4A8003F88D.PDF.
[4] https://www.rbi.org.in/Scripts/bs_viewcontent.aspx?Id=3853

commencement for commercial operations (**"DCCO"**) is delayed on account of reasons beyond the control of the promoters, then such DCCO can be extended by an additional one year, over and above the one-year extension normally permitted. Such extension will not be treated as restructuring and the account shall be retained as 'standard' asset classification;[5] and

(d) NBFCs can also avail refinance facilities from All India Financial Institutions (AIFIs) such as SIDBI, NABARD and National Housing Bank, at the RBI's policy repo rate at the time of availment.

2) Asset Classification[6] and NPA Treatment[7]

(a) The RBI also announced an asset classification standstill in respect of all loan accounts which were standard as on 29th February 2020 (even if overdue), and on which lending institutions have granted 3 (three) month moratorium (for term loans) or deferment (for working capital loans). This includes loan accounts which have already been classified as special mention accounts as per the Prudential Norms on Income Recognition, Asset Classification and Provisioning Pertaining to Advances dated 1st July 2015, as amended and updated from time to time;

(b) The moratorium / deferment period shall be excluded while calculating the days past due for the purpose of asset classification. The provisioning norms for such accounts have also been prescribed; and

(c) Further, standstill shall also apply to all stressed loan accounts under the review period or the resolution period under the Prudential Framework on Resolution of Stressed Assets dated 7th June 2019, as on 1st March 2020. The moratorium period shall be excluded from the calculation of the review period and the timeline for accounts, whose original resolution period was close to expiry, shall be extended by 90 (ninety) days. Expiry of the extended resolution period will trigger additional provisioning.

3) Liquidity Enhancing Reinforcements

(a) A reduction of the fixed rate reverse repo under the Liquidity Adjustment Facility by 25 basis points from 4 per cent to 3.75 per cent has been announced to encourage investment by banks in productive sectors of the economy;[8]

(b) In order to ease the compliance requirements for Scheduled Commercial Banks (**"SCBs"**), the RBI has also allowed the assets held under the statutory liquidity ratios to be reckoned as high-quality liquid assets as part of their compliance with the liquidity coverage ratio (**"LCR"**). Further, the LCR requirement for SCBs has been reduced from 100 per cent to 80 per cent, to be gradually restored in two phases i.e. 1st October

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[5] https://rbidocs.rbi.org.in/rdocs/notification/PDFs/NT216D0553B557CB34B57AF49DAF0D9D15DFD-.PDF.
[6] https://rbidocs.rbi.org.in/rdocs/notification/PDFs/ASSETCLASSIFICATIONE5F6BD8C6D574086B7-D36DC8CF7E13A9.PDF.
[7] https://rbidocs.rbi.org.in/rdocs/notification/PDFs/219PRUDENTIALFRAMEWORK432FCCE0C77E4-280985E3CDA4C2ECB13.PDF.
[8] https://rbidocs.rbi.org.in/rdocs/notification/PDFs/NT2159E39606EE3C24A2C8600CDB4CA66031C-.PDF.

2020 and 1st April 2021.[9] The SCBs and corporative banks have also been instructed to hold-off on their dividend pay-outs until further notice;[10] and

(c) On 1st April 2020, the RBI had raised its cap on the ways and means advances, from **INR 750 billion** to **INR 1.2 trillion**, for the first half of 2019-20. A further increase in this temporary facility by 60 per cent, over and above the limit prescribed as on 31st March 2020 will substantially increase the funds available to State administrations whereby enabling them to better handle the epidemiologic factors during this crisis. The enhanced limit shall be available up to 30th September 2020.[11]

While there may be a 3.0 package as well, at this stage, a two-pronged monetary and fiscal reinforcement is necessary to provide the necessary stimuli to eventually jump-start the economy. A roadmap for post-lockdown measures should also be put into place. As Ben Bernanke said, “Monetary policy cannot do much about long-run growth, all we can try to do is to try to smooth out periods where the economy is depressed because of the lack of demand.”

Should you have any further queries / clarifications, please feel free to contact us on bankingfyi@jclex.com.

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9 https://rbidocs.rbi.org.in/rdocs/notification/PDFs/NT2170558BB99816C46E1993A0920861FCCC7-.PDF.

10 https://rbidocs.rbi.org.in/rdocs/notification/PDFs/218DIVIDENDRESTRICTIONS16D2C5C385314D-1FA7298158408DF196.PDF.

11 https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=49684.

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Contact us:

MUMBAI OFFICES

Corporate Office
307, Century Bhavan, 3rd Floor
Dr Annie Besant Road, Wolli,
Mumbai - 400 030, India
Tel: +91 22 6720 5555 / +91 22 4057 5555
Fax: +91 22 2421 2547

Dispute Resolution Office
148, Jolly Maker Chamber II,
14th Floor, Nariman Point,
Mumbai - 400 021, India
Tel.: +91 22 4920 5555
Fax: +91 22 2204 3579

DELHI OFFICE
809, Ansal Bhawan, 8th Floor,
16 Kasturba Gandhi Marg,
New Delhi - 110 001, India
Tel: +91 11 4175 1889
Fax: +91 11 4014 4122

BENGALURU OFFICE
Kheny Chambers, Upper Ground Floor,
4/2 Cunningham Road,
Bengaluru - 560 052, India
Tel: +91 80 4669 8200
Fax: +91 80 2226 6990

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