ELP's Business Continuity Series - Update

COVID-19: RBI's further boost

While addressing the media for second time during the lockdown the RBI Governor, Mr. Shaktikanta Das mentioned that the mission in current times is to do whatever it takes to prevent the epidemiological curve from steepening any further.

RBI proposed to take further measures to (i) maintain adequate liquidity in the system and its constituents in the face of COVID-19 related dislocations; (ii) facilitate and incentivize bank credit flows; (iii) ease financial stress; and (iv) enable the normal functioning of markets.

Liquidity Management

- ***Targeted Long Term Repo Operations***

Keeping in mind the disruptions caused by COVID-19 which have *inter alia* severely impacted small and mid-sized corporates, including non-banking financial companies (**NBFCs**) and micro finance institutions (**MFIs**), in terms of access to liquidity, RBI decided to conduct targeted long-term repo operations (**TLTRO 2.0**) for an aggregate amount of INR 50,000 crore, to begin with, in tranches of appropriate sizes. It was said that the funds availed by banks under TLTRO 2.0 are to be invested in investment grade bonds, commercial paper, and non-convertible debentures of NBFCs, with at least 50 % of the total amount availed going to small and mid-sized NBFCs and MFIs. Investment under TLTRO 2.0 shall be treated as held to maturity (**HTM**) even above 25% of total investment permitted to be included in the HTM portfolio and exposures under this facility will also not be reckoned under the large exposure framework. Notification for the first TLTRO 2.0 auction will be issued today.

ELP Comment: The investments being made by banks into NBFCs would help in ensuring liquidity and flow to NBFCs including the small and mid-sized NBFCs and MFIs. This step would greatly help NBFCs deal with the liquidity issues with which they have been grappling since a long time and may also help NBFCs in ensuring enough liquidity to take care of the issues being faced by them due to the moratorium announced by RBI on March 27, 2020.

- ***Refinancing Facilities for All India Financial Institutions (AIFIs)***

With a view to supporting the long term funding requirements of agricultural and rural sectors, small industries, housing finances and NBFCs, RBI stepped up to provide support to the all India financial institutions (**AIFIs**) such as the National Bank for Agriculture and Rural Development (**NABARD**), the Small Industries Development Bank of India (**SIDBI**) and the National Housing Bank (**NHB**) are facing difficulties in raising resources from the market due to tightening of financial conditions in the wake of the COVID-19 pandemic. RBI announced provision of special refinance facilities (to be charged at RBI's policy repo rate at the time of availment) for a total amount of INR 50,000 crore to these AIFs as below:

  - INR 25,000 crore to NABARD for refinancing regional rural banks (**RRBs**), cooperative banks and micro finance institutions (**MFIs**);
  - INR 15,000 crore to SIDBI for on-lending/refinancing (including loans to refinance loans to NBFCs, MFIs); and
  - INR 10,000 crore to NHB for supporting housing finance companies (**HFCs**).

ELP Comment: This will boost and improve the long needed and awaited liquidity in NBFCs, RRBs, cooperative banks, MFI and HFCs and in turn will improve credit flow to the MSMSE, agriculture, housing and small sectors / borrowers.

- ***Liquidity Adjustment Facility: Fixed Rate Reverse Repo Rate***

RBI, with a view to encourage banks for deploying surplus funds in investments and loans in productive sectors of economy, announced reduction of fixed rate reverse repo rate under the liquidity adjustment facility (LAF) by 25 basis points from 4.0 per cent to 3.75 %. The policy repo rate and the marginal standing facility rate and the Bank Rate remained unchanged.

ELP Comment: This will improve liquidity of bank and encourage banks to deploy surplus funds in investments and loans in various sectors of the economy to ensure productivity.

- ***Ways and Means Advances for States***

RBI announced that the ways and means advances (**WMA**) limit of states would be increased by 60% (as against 30% as announced earlier on April 1, 2020) over and above the level as on March 31, 2020. The increased limit will be available till September 30, 2020.

The aforesaid is provided by RBI with a view to ensure that the States are not bunching up their borrowings and are able to space them better and accordingly the states may have better comfort to plan their market borrowing programmes.

Regulatory Measures

RBI also announced the following measures in line with the suggestions of Basel Committee on Banking Supervision.

- ***Asset Classification***

RBI announced that there would be an asset classification stand still from March 1, 2020 to May 31, 2020 for all accounts which were standard as on March 1, 2020 and accordingly for such accounts the 90-day NPA norm shall exclude the moratorium period. NBFCs have flexibility under the prescribed accounting standards to consider such relief to their borrowers.

ELP Comment: This provides a much needed clarification required by the industry since certain courts have passed judgements that there cannot be an asset classification downgrade during the moratorium period (announced by RBI on 27th March, 2020) even for the accounts which were not standard before or as on March 1, 2020.

- ***Extension of Regulation Timeline***

RBI announced that the period for resolution plan shall be extended by 90 days under RBI's prudential framework of resolution of stressed assets dated June 7, 2019.

ELP Comment: Due to several practical reasons, the resolution plans were not getting implemented within the present prescribed timelines. Consequently, the lenders were required to make additional provisioning as per the extant guidelines. This extension will provide a more practical timeline for implementation of a resolution plan more so in case of consortium or where several lenders are involved.

- ***Distribution of Dividend***

Scheduled commercial banks and cooperative banks will not make any further dividend payouts from profits pertaining to the financial year ended March 31, 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.

ELP Comment: The restriction of dividend announcement would ensure that the banks retain capital in the uncertain times.

- ***Liquidity Coverage Ratio (LCR)***

The LCR requirement for Scheduled Commercial Banks has being brought down from 100 % to 80 % which shall be restored to 90% by October 01, 2020 and to 100% by April 01, 2021.

ELP Comment: Reduction in the LCR requirements will individual banks in taking care of the adverse effects of Covid-19 pandemic on their liquidity position during the financial year 2020-21.

- ***NBFC Loans to Commercial Real Estate Projects***

Presently, 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. Similar treatment will now be available to loans given by NBFCs to commercial real estate.

ELP Comment: Many real estate developers/promoters in the commercial real estate sector avail loans from NBFCs. At times, these were joint loans from banks and NBFCs and at times banks assign/novate part of the loans to NBFCs. While banks were allowed to extend DCCO as per the recent circular issued by RBI, no such permission was available to NBFCs. This will bring NBFCs at par with banks as far as allowing extension of DCCO is concerned and remove the anomaly.

Note : This update is one amongst a series Business Continuity articles which ELP has instituted in light of COVID-19. To read our other updates please click here.