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## **Reserve Bank of India issued certain amendments relating to External Benchmark Based Interest Rate**

- ✓ The Reserve Bank of India has been examining the feasibility of mandating the use of external benchmark for determining interest rate on floating rate loans.

In August 2017 the RBI constituted an Internal Study Group (ISG) to examine the working of the Marginal Cost of Fund Based Lending Rate (MCLR) system that was put in place in April 2016. The report of the ISG, which recommended the move over to an External Benchmark based Lending rate system, was placed in public domain in October 2017.

- ✓ The RBI, in the Statement on Developmental and Regulatory Policies dated December 5, 2018 announced its intention to make it mandatory for banks to link all new floating rate personal or retail loans and floating rate loans to MSMEs to an external benchmark. As it was felt that the matter required further stakeholder consultations, it was announced in the Statement on Developmental and Regulatory Policies dated April 4, 2019, that RBI would hold further deliberations before taking a final decision in the matter.

It has been observed that due to various reasons, the transmission of policy rate changes to the lending rate of banks under the current MCLR framework has not been satisfactory. The RBI therefore has issued a circular making it mandatory for banks to link all new floating rate personal or retail loans and floating rate loans to MSMEs to an external benchmark effective October 1, 2019.

- ✓ The banks are free to choose one of the several benchmarks indicated in the circular. The banks are also free to choose their spread over the benchmark rate, subject to the condition that the credit risk premium may undergo change only when borrower's credit assessment undergoes a substantial change, as agreed upon in the loan contract.

## **Government issues notification regarding the National Financial Reporting Authority (NFRA) Rules**

- ✓ The National Financial Reporting Authority Rules, 2018 has been amended by the government. The amendments include notification of the form in which the auditor shall file the annual return.

The due date for filing such form has also been changed to 30<sup>th</sup> November of every year.

- ✓ In the National Financial Reporting Authority Rules, 2018 (hereinafter referred to as the said rules), in clause (g) of sub-rule (1) of rule 2, after the words "a division", the words, "including the one headed by the chairperson or a full-time member", shall be inserted.
- ✓ In the said rules, after clause (c) of sub-rule (1) of rule 3, the following explanation shall be inserted:

For the purpose of this clause, "banking company" includes 'corresponding new bank' as defined in clause (d) of section 2 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 (5 of 1970) and clause (b) of section 2 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980 (40 of 1980) and 'subsidiary bank' as defined in clause (k) of section 2 of the State Bank of India (Subsidiary Bank) Act, 1959 (38 of 1959)."

- ✓ In the said rules, in rule 5, for the figures, letters and words "30th April every year in such form as may be specified by the Central Government", the figures, letters and words "30th November every year in Form NFRA-2" shall be substituted.
- ✓ In the said rules, in sub-rule (5) of rule 1 1, the following provisos shall be inserted, namely:- "Provided that where the disposal does not take place within the said period, the Division shall

record the reasons for not disposing off the show-cause notice within the said period, and the chairperson, may, after taking into account the reasons so recorded, extend the aforesaid period by such additional period not exceeding ninety days as he may consider necessary: Provided further that the chairperson may, if he thinks fit, grant the said extension of period more than once.'

### **Central Board of Direct Taxes (CBDT) issued a consolidated circular for assessment of start-ups for better clarification**

- ✓ In order to provide hassle-free tax environment to the Startups, a series of announcements have been made by the Hon'ble Finance Minister. The Central Board of Direct Taxes (CBDT) has issued various circulars in the matter. The key highlights of the circulars are stated as under:
- **Time limit for Completion of pending assessments of the Startups**

All assessment referred to in Section 2(i) should preferably be completed by the Assessing Officers by 30th September, 2019. The assessments referred to in Section 2(ii) & 2(iii) should be taken up on priority and should be preferably completed by 31st October, 2019.

## **Amendments relating to Indian Insurance Companies (Foreign Investment) Amendment Rules, 2019**

- ✓ The Central Government hereby makes the following rules further to amend the Indian Insurance Companies (Foreign Investment) Rules, 2015

- **In rule 2, after clause (l), the following clause shall be inserted, namely:-**

“intermediary or insurance intermediary” shall have the meaning assigned to it in clause (f) of sub-section (1) of section 2 of the Insurance Regulatory and Development Authority Act, 1999;”

- **For rule 9, the following rule shall be substituted, namely:-**

(1) There shall be no cap to foreign equity investment for intermediaries or insurance intermediaries.

(2) The foreign direct investment proposals under this rule shall be allowed under the automatic route subject to verification by the Authority and the foreign investment in intermediaries or insurance intermediaries shall be governed by the same terms as provided under rules 7 and 8:

Provided that where an entity like a Bank, whose primary business is outside the insurance area, is allowed by the Authority to function as an insurance intermediary, the foreign equity investment caps applicable in that sector shall continue to apply, subject to the condition that the

revenues of such entities from the primary (non-insurance related) business must remain above 50 per cent. of their total revenues in any financial year.

## **Reserve Bank of India(RBI) releases the Report of the Task Force on the Development of Secondary Market for Corporate Loans**

- ✓ The Reserve Bank of India (RBI) had constituted a Task Force on Development of Secondary Market for Corporate Loans.

The Terms of Reference of the Task Force were to review the existing state of market for loan sale/transfer in India as well as the international experience in loan trading and to make recommendations for the development of secondary market for corporate loans in India.

The key recommendations of the Task Force are as follows:

- setting up of a Self-Regulatory Body of participants which will finalise detailed modalities for the secondary market for corporate loans including standardisation of documentation;
- setting up a Central Loan Contract Registry;
- setting up an online loan sales platform to conduct auctions/sale process of the secondary market loans;



- amending the extant regulations applicable to, inter-alia, securitization and assignment of loans, asset reconstruction, Foreign Portfolio Investment and External Commercial Borrowings; and
- amendments in regulations issued by SEBI, IRDA and PFRDA to enable participation of non-banking entities such as mutual funds, insurance companies and pension funds.

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