



RBI announces additional measures to deal with the fallout of COVID-19

While the Reserve Bank of India (RBI) has issued various measures to address the liquidity constraints in the banking system and to de-stress the financial markets, in order to provide further liquidity the Governor of RBI has, in his statement realised earlier today, announced certain additional liquidity and regulatory measures to deal with the prevailing situation.

Liquidity Measures

(i) **Targeted Long Term Operations (TLTRO) 2.0:** RBI has decided to conduct TLTRO 2.0 for an aggregate amount of INR 500 Billion, in tranches of appropriate sizes, with a specific focus on non-banking financial companies (NBFCs) and micro finance institutions (MFIs). The funds availed by banks under TLTRO 2.0 from the RBI is to be invested (within 1 month) 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.

(ii) **Refinancing facilities for All India financial institutions (AIFIs):** RBI has decided to provide special refinance facilities for a total amount of INR 500 Billion to the National Bank for Agriculture and Rural Development (NABARD), the Small Industries Development Bank of India (SIDBI) and the National Housing Bank (NHB). This will comprise of INR 250 Billion to NABARD for refinancing regional rural banks (RRBs), cooperative banks and micro finance institutions (MFIs), INR 150 Billion to SIDBI for on-lending/ refinancing, and INR 100 Billion to NHB for supporting housing finance companies (HFCs). This has been done with a view to address the long-term funding requirements of agriculture and the rural sector, small industries, housing finance companies, NBFCs and MFIs.

(iii) **Fixed Rate Reverse Repo Rate:** In order to encourage banks to deploy the surplus funds in investments and loans in productive sectors of the economy, RBI has reduced the fixed rate reverse repo rate by 25 basis points from 4% to 3.75% per cent with immediate effect.

(iv) **Ways and Means Advances (WMA) for States:** In order to provide greater comfort to State Governments for undertaking efforts towards containment of COVID-19 and for planning their borrowing programmes better, RBI has decided to increase the WMA limit (i.e., the temporary loan facility for States to address the payment mismatch) by 60% over and above the level as on March 31, 2020. The increased limit will be available till September 30, 2020.

Regulatory Measures

(i) **Asset Classification:** The RBI in order to provide relief to the borrowers had earlier permitted lending institutions (LIs) to grant a moratorium of three months on payment of current dues falling between March 1, 2020 and May 31, 2020. RBI has now announced that in respect of all accounts for which lending institutions has decided to grant moratorium or deferment, and which were standard as on March 1, 2020, the 90-day NPA (non-performing asset) norm shall exclude the moratorium period, i.e., there would be an asset classification standstill for all such accounts from March 1, 2020 to May 31, 2020.

Dr Gopal Das Bhawan, 14th Floor, 28, Barakhamba Road, New Delhi - 110 001

Tel : +91 11 4213 0000 | Fax: +91 11 4213 0099

Bajaj Bhawan, 1st Floor, 226, Nariman Point, Mumbai - 400 021

Tel : +91 22 4910 0000 | Fax: +91 22 4910 0099

W : www.clasislaw.com

E : info@clasislaw.com



Further, with the object of ensuring sufficient buffers to meet future challenges, RBI has directed that the lending institution providing moratorium will have to maintain a higher provision of 10% on all such accounts under the standstill, spread over two quarters (i.e., March, 2020 and June, 2020).

(ii) **Extension of Resolution Timeline:** Under RBI's prudential framework of resolution of stressed assets dated June 7, 2019, in the case of large accounts under default, Scheduled Commercial Banks, AIFs, NBFC-ND-SIs and NBFC-D are currently required to hold an additional provision of 20% if a resolution plan has not been implemented within 210 days from the date of such default. The RBI, recognizing the challenges to resolution of stressed assets in the current volatile environment, has decided that the period for the implementation of the resolution plan shall be extended by 90 days.

(iii) **Distribution of Dividend:** In view of the COVID-19 related economic shock, RBI has directed scheduled commercial banks and cooperative banks to not make any further dividend pay-outs 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.

(iv) **Liquidity Coverage Ratio (LCR):** In order to ease the liquidity position at the level of individual institutions, the LCR requirement for Scheduled Commercial Banks has been brought down by the RBI from 100% to 80% with immediate effect. The requirement shall be gradually restored back in two phases - 90% by October 1, 2020 and 100% by April 1, 2021.

(v) **NBFC Loans to Commercial Real Estate Projects:** In terms of the extant guidelines for banks, the date for commencement of commercial operations 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. With a view to providing relief to NBFCs and real estate sector, the RBI has decided to extend a similar treatment to the loans given by NBFCs to commercial real estate.

Clasis Law supports 'Stay Home, Stay Safe' initiative to fight against pandemic COVID-19 crisis. We continue business as usual and our attorneys and staff are available to provide our clients uninterrupted service. Please do not hesitate to reach out with questions or concerns at any time. We hope that you and your family remain healthy and safe throughout this global health challenge.

Dr Gopal Das Bhawan, 14th Floor, 28, Barakhamba Road, New Delhi - 110 001

Tel : +91 11 4213 0000 | Fax: +91 11 4213 0099

Bajaj Bhawan, 1st Floor, 226, Nariman Point, Mumbai - 400 021

Tel : +91 22 4910 0000 | Fax: +91 22 4910 0099

W : www.clasislaw.com

E : info@clasislaw.com