

TREASURY AND INVESTMENTES – REGULATORY ASPECTS

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Overview of Session

- Treasury Business and;
- Regulatory Brief on
 - Derivatives
 - Fixed Income and Money Market Activities
 - Foreign Exchange Business
 - Nostro Accounts

Regulatory Aspects – Derivatives

- **RBI Specified Comprehensive Guidelines on Derivatives (2007, 2011, and 2018) read with Direction on IRO - 2018,**
 - Permissible derivative instruments and their benchmarks
 - Control Framework setup
 - Risk management and corporate governance aspects
 - Suitability and Appropriateness requirements
 - All Documentation Requirements – With examples *including* BR, ISDA & CSA
 - Risk Management (Identify – Measure – Monitor – Prudential Limits and examples thereto)
 - Independent risk control
 - Management Information Systems
 - Audit Requirements
 - Relaxation of S&A – 2018 Amendment
 - **References to RMIBD – Common as Forex Business**

Regulatory Aspects – Derivatives

- Reporting
- Accounting and Valuation
- Novation etc. of Contract
- Peculiar circumstances of deal exceptions

Regulatory Aspects – FIMM

- **Master Circular - Prudential Norms for Classification, Valuation and Operation of Investment Portfolio by Bank**
 - Board approved Investment Policy
 - Reporting on NDS - OM
 - Selling a government security already contracted for purchase (same or Subsequent settlement cycle)
 - confirmation of the deal/advice of allotment from the Reserve Bank
 - When one of the party is FPI – T+2 Settlement – Responsibilities of Custodian Bank
 - Guidelines on DVP III settlement – Concurrent Audit Requirement

Regulatory Aspects – FIMM

- **Master Circular – on Investment Portfolio by Bank – STRIP read with Guidelines on Stripping/ Reconstitution of Government Securities dated 3rd May 2018**
 - STRIPS - Separate Trading of Registered Interest and Principal Securities.
 - Periodic coupon payments of an existing Government Security > tradable zero-coupon securities, > trade in the market at a discount > redeemed at face value.
 - Stripping a five-year Government Security would yield 10 coupon securities (representing the coupons), maturing on the respective coupon dates and one principal security representing the principal amount, maturing on the redemption date of the five-year security.
 - Securities that could be tendered for stripping/reconstitution - minimum of Rs.1 crore and in multiples thereof
 - Reserve Bank will not charge any fees on stripping/reconstitution
 - Stripping/reconstitution - any time from the date of issuance of a GS till maturity

Regulatory Aspects – FIMM

- **Master Circular – on Investment Portfolio by Bank – STRIP read with Guidelines on Stripping/ Reconstitution of Government Securities dated 3rd May 2018**
 - Reconstitution - reverse process of stripping > the Coupon STRIPS and Principal STRIPS are reassembled into the original Government Security.
 - Being G-Sec, STRIPS are eligible for SLR with *separate ISINs (Coupon STRIPS with the same maturity date shall have the same ISIN)*
 - Detailed guidelines outlining the process – and 2018
 - Requests directly in e-kuber for stripping/reconstitution
 - Requests for stripping/reconstitution by Gilt Account Holders (GAH) shall be placed with the respective Custodian maintaining the CSGL account, who in turn, will place the requests on behalf of its constituents in e-Kuber

Regulatory Aspects – FIMM

- **Master Circular – on Investment Portfolio by Bank – Ready Forwards**

- Dated Securities, T-Bills of Central/State Government
- RBI SGL Account or Gilt Account Holders with bank/PD through RBI CSGL
- No ready forward contracts between a custodian and its gilt account holder
- Listed Companies
 - Minimum 7 Days lending and borrow for any short time
 - The counterparty Bank or a PD maintaining SGL Account with the Reserve Bank
 - When securities bought/Money Lent – The custodian through which the repo transaction is settled should block these securities in the gilt account and ensure that these securities are not further sold or re-repoed during the repo period but are held for delivery under the second leg
 - Unlisted company – 2 additional conditions for specially issued securities

Regulatory Aspects – FIMM

- **Master Circular – on Investment Portfolio by Bank – Ready Forwards**

- Any two gilt account holders maintaining their gilt accounts with the same custodian (i.e., the CSGL account holder) may not enter into ready forward contracts with each other
- Cooperative banks may not enter into ready forward contracts with NBFCs. This restriction would not apply to repo transactions between Urban Co-operative banks and authorised PDs in Government Securities
- Reporting on the Negotiated Dealing System (NDS).
- In respect of ready forward contracts involving gilt account holders, the custodian (i.e., the CSGL account holder) with whom the gilt accounts are maintained will be responsible for reporting the deals on the NDS on behalf of the constituents (i.e. the gilt account holders).
- Settled through the SGL Account/CSGL Account maintained with the RBI, Mumbai, with the Clearing Corporation of India Ltd. (CCIL) acting as the central counter party

Regulatory Aspects – FIMM

- **Master Circular – on Investment Portfolio by Bank – Ready Forwards**
 - Effective Internal Controls and Concurrent Audit Requirements
 - Entities can undertake ready forward transactions only in securities held in excess of the prescribed Statutory Liquidity Ratio (SLR) requirements
 - Permissibility of Re-Repo and certain RBI stipulated conditions
 - Scheduled commercial banks, Primary Dealers along with Mutual Funds and Insurance Companies (subject to the approval of the regulators concerned) maintaining Subsidiary General Ledger account > Government securities, including SDLs and Treasury Bills, acquired under reverse repo, subject to various conditions and guidelines

Regulatory Aspects – FIMM

- **Master Circular – on Investment Portfolio by Bank – INTERNAL CONTROLS**

- Clear functional separation
- FIMMDA code of conduct while executing trades on NDS-OM and in the OTC market
- Deal Slips, confirmations (Except for NDS-OM), and Operations activities
- OTC trades in Commercial Papers (CPs) and Certificate of Deposits (CDs) and OTC repo trades in corporate debt securities, CPs, CDs and non-convertible debentures (NCDs) of original maturity less than one year to be reported on F-TRAC - Clearcorp
- In F-TRAC, both the counterparties individually report their respective sides of the trades and the trades are validated for trade details before matching by F-TRAC
- This ensures implicit confirmation by both counterparties. Further, the details of the transactions are available on the F-TRAC system. The requirement of exchange of physical confirmation of trades matched on F-TRAC is waived subject to conditions – (Bilateral, Stamp Duty, and Risk Management)

Regulatory Aspects – FIMM

- **Master Circular – on Investment Portfolio by Bank – INTERNAL CONTROLS**
 - Reconciliation of Balances as per bank's books with the balances in the books of PDOs and Its Audit
 - Regular reporting to Top Management
 - Audit Committee of the Board shall review in each of its meetings the total exposure of the bank to capital market – Plus compliance with the Reserve Bank and Board guidelines and adequacy of risk management and internal control systems
 - Managements should ensure - adequate internal control and audit procedures for ensuring proper compliance
 - Half Yearly Review

Regulatory Aspects – FIMM

- **Master Circular – on Investment Portfolio by Bank – BROKERS**
 - Empanelment Process and as per Policy
 - Annual review of Brokers
 - Clear-cut criteria, verification of their creditworthiness, market reputation, etc.
 - A record of broker-wise details of deals put through and brokerage paid
 - Broker is not obliged to disclose the identity of the counterparty to the deal
 - On Conclusion – Disclose name and mention on contact note (CN)
 - Importance of Timestamp, Mandatory disclosure on CN and back-office to validate
 - Aggregate contract limits for each of the approved brokers and, a limit of 5% of total transactions through brokers – breach to be notified to board

Regulatory Aspects – FIMM

- **Master Circular – on Investment Portfolio by Bank – NON SLR Investments**
 - Appraisal Process
 - Investment proposals should be subjected to the same degree of credit risk analysis as any loan proposal (*More stringent for non-borrower customer*)
 - Refer to the 'list of defaulters/wilful defaulters
 - Prudential limits and sub limits on investments
 - Strengthen their internal rating systems and regular (quarterly or half-yearly) tracking of the financial position of the issuer
 - Continuous monitoring of the rating migration
 - Prudential Limits for entry-level minimum ratings/ quality standards and industry-wise, maturity-wise, duration-wise, issuer-wise etc. limits to mitigate the adverse impacts of concentration and the risk of illiquidity

Regulatory Aspects – FIMM

- **Master Circular – on Investment Portfolio by Bank – NON SLR Investments**
 - No Investment in: Non-SLR securities of original maturity of less than one-year (Except CD/CP/NCDs)
 - No Investment in: unrated non-SLR securities (*unrated bonds of companies engaged in infrastructure activities with regulatory caps*)
 - Unlisted non-SLR securities should not exceed 10 per cent of total investment in non-SLR securities as on March 31, of the previous year
 - Additional 10% with stipulations: Investments of Securitization papers (InfraProjects), bonds and debentures (SARFAESI)
 - Liquid/Short Term Debt – Weighted Average Maturity < 1Year – 10% of Previous Year Networth
 - Quarterly Review of Non-SLR Portfolio

Regulatory Aspects – FIMM

- **Master Circular - Prudential Norms for Classification, Valuation and Operation of Investment Portfolio by Bank – SDL**
 - State Governments also raise loans from the market which are called SDLs
 - SDLs are dated securities issued through normal auction similar to the auctions conducted for dated securities issued by the Central Government
 - Interest at half-yearly intervals and the principal is repaid on the maturity date
 - SDLs issued by the State Governments qualify for SLR
 - They are also eligible as collaterals for borrowing through market repo as well as borrowing by eligible entities from the RBI under the Liquidity Adjustment Facility (LAF) and special repo conducted under market repo by CCIL
 - State Governments have also issued special securities under “Ujjwal Discom Assurance Yojna (UDAY) Scheme for Operational and Financial Turnaround of Power Distribution Companies (DISCOMs)” notified by Ministry of Power

Regulatory Aspects – FIMM

- **Master Circular - Prudential Norms for Classification, Valuation and Operation of Investment Portfolio by Bank – WHEN ISSUED (WI)**
 - Approved an Investment Policy
 - A Security that has been authorized for issuance but not yet actually issued
 - Commence from issue notification date and it would cease on the working day immediately preceding the date of issue
 - Contracted for settlement on the date of issue
 - The originating transactions (sale or purchase of 'WI' securities) shall be undertaken only on NDS-OM and any reversal of on or outside the NDS-OM platform
 - Only PDs can take a short position in the 'WI' market, non-PD entities can sell the 'WI' security only if they have a preceding purchase contract for equivalent or higher amount
 - Open Position LIMITS

Regulatory Aspects – FIMM

- **Master Circular - Prudential Norms for Classification, Valuation and Operation of Investment Portfolio by Bank – SHORT SELLING**

- Latest RBI Direction 2018
- Approved an Investment Policy

The maximum amount of a security (face value) that can be short sold shall be as mentioned below:

Category	Security level limit
Liquid securities	2% of the total outstanding stock of each security, or, Rs.500 crore, whichever is higher.
Other securities	1% of the total outstanding stock of each security, or, Rs.250 crore, whichever is higher.

- HFT Category, Other Stipulations and Daily Audit

Regulatory Aspects – FIMM

- **Master Circular - Prudential Norms for Classification, Valuation and Operation of Investment Portfolio by Bank – GENERAL**
 - Banks should furnish RBI, a 'Statement of the Reconciliation of Bank's Investments (held in own Investment account, as also under PMS)', as at the end of every accounting year duly certified by the bank's auditors
 - CLASSIFICATION:
 - Classification for Balance Sheet
 - Categories HTM – AFS – AFT
 - Max 25% under HTM (Excess SLR)
 - Shifting Among Categories
 - Shifting Among Categories – to/From HTM, AFS ↔ HFT,
 - Valuation Aspects – HTM, AFTM and AFS and Non Performing Investments (NPI)

Regulatory Aspects – FIMM

- **Master Circular - Prudential Norms for Classification, Valuation and Operation of Investment Portfolio by Bank – GENERAL**

HTM	HFT	AFS
<ul style="list-style-type: none">• Need not be marked to market• Acquisition Cost• Amortize Premium• Impairment events	<ul style="list-style-type: none">• Marked to market at monthly or at more frequent	<ul style="list-style-type: none">• Marked to market at quarterly or at more frequent

Regulatory Aspects – FIMM

- **Investment Fluctuation Reserve**

- Lower of the: (a) net profit on sale of investments during the year; (b) net profit for the year less mandatory appropriations; shall be transferred to the IFR, until the amount of IFR is at least 2 percent of the HFT and AFS portfolio, on a continuing basis. Where feasible, this should be achieved within a period of 3 years
- Discretion for draw down the balance available in IFR in excess of 2 percent of its HFT and AFS portfolio, for credit to the balance of profit/loss as disclosed in the profit and loss account at the end of any accounting year.
- Balance in the IFR is less than 2 percent of the HFT and AFS investment portfolio, a draw down subject to : (a) The drawn down amount is used only for meeting the minimum CET1/Tier 1 capital requirements by way of appropriation to free reserves or reducing the balance of loss, and (b) The amount drawn down is not more than the extent the MTM provisions made during the aforesaid year exceed the net profit on sale of investments during that year

Regulatory Aspects – FIMM

- **Master Circular - Prudential Norms for Classification, Valuation and Operation of Investment Portfolio by Bank – EQUITY/DEBENTURES**
 - Broad investment objectives
 - Expertise in equity research - dedicated equity research department
 - Transparent policy and procedure
 - Investment Committee – Set up by Board
 - The Investment Committee should be held accountable for the investments made by the bank

Regulatory Aspects – Nostro

- Foreign currency balances management - Treasury
- Internal Control Guidelines – Chapter 5
- Process and Controls
- SWIFT, Accounting Systems and Reconciliation
- Outstanding/Unreconciled Entries
- Unclaimed balances, return of funds and DD Payables
- Management Reporting
- Audit

Regulatory Aspects – Forex Business

- **RBI Guidelines on Risk Management & Interbank Dealings**
 - **Products and Operational Stipulations**
 - Contracted Exposure
 - Probable Exposure
 - Special Dispensation
 - **Permissible Facilities**
 - **Forex Merchant and Interbank - Overview**
 - **Documentation and Underlying**

THANKS



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