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Statement on Developmental and Regulatory Policies

This Statement sets out various developmental and regulatory policy measures relating to (i) Financial Markets; (ii) Regulations; and (iii) Payment Systems and Fintech.

I. Financial Markets

1. Review of the Regulatory Framework for Electronic Trading Platforms

In October 2018, the Reserve Bank had put in place a regulatory framework for electronic trading platforms (ETPs) for executing transactions in financial instruments regulated by it. Under the framework, which aimed to ensure fair access through transparent, safe, and efficient trading processes, robust trading infrastructures and prevent market abuse, thirteen ETPs operated by five operators have since been authorised. Over the last few years, there has been increased integration of the onshore forex market with offshore markets, notable developments in the technology landscape and an increase in product diversity. Market makers have also made requests to access offshore ETPs offering permitted Indian Rupee (INR) products. In view of these developments, it has been decided to review the regulatory framework for ETPs. The revised regulatory framework will be issued separately for public feedback.

2. Hedging of Gold Price Risk in the Over the Counter (OTC) Market in the International Financial Services Centre (IFSC)

With a view to providing flexibility to resident entities to hedge their exposures to gold price risk efficiently, resident entities were permitted, in December 2022, to access recognised exchanges in the International Financial Services Centre (IFSC). It has now been decided to also allow them to hedge the price of gold in the over the counter (OTC) segment in the IFSC. This will provide resident entities more flexibility and easier access to derivative products in hedging their exposure to gold prices. The related instructions are being issued separately.

II. Regulations

3. Key Fact Statement (KFS) for Retail and MSME Loans & Advances

The Reserve Bank has announced several measures in the recent past to foster greater transparency and disclosure by the regulated entities (REs) in pricing of loans and other charges levied on the customers. One such measure is the requirement for lenders to provide their borrowers a Key Fact Statement (KFS) containing the key

information regarding a loan agreement, including all-in-cost of the loan, in simple and easy to understand format. Currently KFS is specifically mandated in respect of loans by scheduled commercial banks to individual borrowers; digital lending by REs; and microfinance loans. Now, it has been decided to mandate all REs to provide the 'Key Fact Statement' (KFS) to the borrowers for all retail and MSME loans. Providing critical information about the terms of the loan agreement, including all-inclusive interest cost, shall greatly benefit the borrowers in making an informed decision.

III. Payment Systems and Fintech

4. Enhancing the Robustness of AePS

Aadhaar Enabled Payment System (AePS), operated by NPCI, enables customers to perform digital payment transactions in assisted mode. In 2023, more than 37 crore users undertook AePS transactions, which points to the important role played by AePS in financial inclusion. To enhance the security of AePS transactions, it is proposed to streamline the onboarding process, including mandatory due diligence, for AePS touchpoint operators, to be followed by banks. Additional fraud risk management requirements will also be considered. Instructions in this regard shall be issued shortly.

5. Principle-based Framework for Authentication of Digital Payment Transactions

Over the years, the Reserve Bank has prioritised security of digital payments, in particular the requirement of Additional Factor of Authentication (AFA). Though RBI has not prescribed any particular AFA, the payments ecosystem has largely adopted SMS-based One Time Password (OTP). With innovations in technology, alternative authentication mechanisms have emerged in recent years. To facilitate the use of such mechanisms for digital security, it is proposed to adopt a principle-based "*Framework for authentication of digital payment transactions*". Instructions in this regard will be issued separately.

6. Introduction of Programmability and Offline Functionality in Central Bank Digital Currency (CBDC) Pilot

The CBDC Retail (CBDC-R) pilot currently enables Person to Person (P2P) and Person to Merchant (P2M) transactions using Digital Rupee wallets provided by pilot banks. It is now proposed to enable additional use cases using programmability and offline functionality. Programmability will permit users like, for instance, government agencies to ensure that payments are made for defined benefits. Similarly, corporates will be able to program specified expenditures like business travel for their employees. Additional features like validity period or geographical areas within which CBDC may be used can also be programmed. Second, it is proposed to introduce an offline functionality in CBDC-R for enabling transactions in areas with poor or limited internet connectivity. Multiple offline solutions (proximity and non-proximity based) across hilly areas, rural and urban locations will be tested for this purpose. These functionalities will be introduced through the pilots in a gradual manner.