

Important Banking Terms

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▪ Marginal Standing facility

. Marginal standing facility (MSF) is a window for banks to borrow from the Reserve Bank of India in an emergency situation **when interbank liquidity dries up** completely.

. Banks borrow from the central bank by **pledging government securities at a rate higher than the repo rate under liquidity adjustment facility.**

. The MSF rate is pegged 100 basis points or a percentage point above the repo rate. Under MSF, banks can borrow funds up to 1% of their net demand and time liabilities (NDTL).

▪ Net Demand and Time Liabilities

. NDTL shows the **difference between the sum of demand and time liabilities (deposits) of a bank (with the public or the other banks) and the deposits in the form of assets held by the other banks.**

. **Demand Liabilities include all liabilities which are payable on demand that include**

. current deposits

. demand liabilities portion of savings bank deposits

. margins held against letters of credit/ guarantees

. balances in overdue fixed deposits

. cash certificates and cumulative/ recurring deposits

. **Time Liabilities are those which are payable otherwise than**

on demand that include:

- . fixed deposits
- . cash certificates
- . cumulative and recurring deposits
- . time liabilities portion of savings bank deposits
- . margin held against letters of credit

. Other Demand and Time Liabilities (ODTL) include:

- . interest accrued on deposits
- . bills payable
- . unpaid dividends
- . suspense account balances representing amounts due to other banks or public
- . net credit balances in branch adjustment accounts
- . any amounts due to the banking system which are not in the nature of deposits or borrowing

. Assets with the banking system include:

- . balances with banks in current accounts
- . balances with banks and notified financial institutions in other accounts
- . funds made available to the banking system by way of loans
- . deposits repayable at call or short notice of a fortnight or less
- . loans other than money at call and short notice made available to the banking system

▪ Liquidity Coverage Ratio

. As part of **post global financial crisis reforms**, Basel Committee on Banking Supervision (BCBS) had introduced Liquidity Coverage Ratio (LCR), which requires banks to maintain **High Quality Liquid Assets (HQLAs) to meet 30 days net outgo under stressed conditions.**

. Further, as per Banking Regulation Act, 1949, the banks in India are required to hold liquid assets to maintain Statutory Liquidity Ratio (SLR). In view of the fact that liquid assets under SLR and HQLAs under LCR are largely the same, **RBI has been allowing banks to use a progressively increasing proportion of the SLR securities for being considered as HQLAs for LCR** so that the need to maintain liquid assets for both the requirements is optimised.

▪ Statutory Liquidity Ratio

. The **ratio of liquid assets to net demand and time liabilities (NDTL)** is called statutory liquidity ratio (SLR).

. Apart from Cash Reserve Ratio (CRR), banks have to maintain a stipulated proportion of their net demand and time liabilities in the form of liquid assets like cash, gold and unencumbered securities. Treasury bills, dated securities issued under market borrowing programme and market stabilisation schemes (MSS) also form part of the SLR.

▪ High Quality Liquidity Assets

. Assets are considered to be HQLA if they can be **easily and immediately converted into cash at little or no loss of value.** The liquidity of an asset depends on the **underlying stress**

scenario, the volume to be monetised and the time frame considered.

. There are two categories of assets which can be included in the stock of HQLAs, viz. Level 1 and Level 2 assets. Level 2 assets are subdivided into Level 2A and Level 2B assets on the basis of their price-volatility.

. Level 1 assets include:

. Cash including cash reserves in excess of required CRR

. Government securities in excess of the minimum SLR requirement

. Within the mandatory SLR requirement, Government securities to the extent allowed by RBI under Marginal Standing Facility (MSF).