

AMENDMENTS AND ADDITIONS TO POLICY MATRIX, Subprogram 3

Background. The implementation periods for subprograms 2 and 3 are **December 2019–September 2020 and October 2020 – September 2021**. The policy matrix for subprogram 3 was first discussed and agreed at the loan negotiations for subprogram 2 in September 2020. At the time of first consultation mission in December 2020, it was revealed that some of the policy actions included under Subprogram 3 have already been partially completed within the subprogram 2 period. Further, additional areas were requested by the government which had relevance and value addition which were included in subprogram 3 post consultation mission and fact-finding mission. These were informed to both OGC and SPD.

Table 1- List of Revisions and amendments

Subprogram 3 approved by the board in October 2020	Revised subprogram for approval in October 2021	Reason for revision
<p>3.1 RMA approves the listing rules for government bonds and bills to facilitate secondary market trading.</p> <p>NA</p>	<p>3.1a. RMA board approved the listing rules for government bonds and bills for implementation immediately to facilitate secondary market trading.</p> <p>3.1b Government (Ministry of Finance-MoF) listed all outstanding and new treasury bonds on the Royal Securities Exchange of Bhutan (RSEB) to facilitate secondary market transaction.</p>	<p>Unchanged</p> <p>Project team added Ensures that government will be adding issuances to provide liquidity to the market and establish yield curves.</p>
<p>NA</p> <p>3.2.a RMA approves the revised regulations on the issuance of equity by companies including (i) trading market regulations, (ii) market trade reporting standards, and (iii) listing standards.</p>	<p>3.2a. RMA board approved revised rules and regulations pertaining to the Alternative Investment Market (AIM) Board for immediate implementation to increase participation by Micro, Cottage, Small, Medium and Large Enterprises (MCSML) and investors on AIM.</p> <p>3.2b. RMA board approved the revised regulations on the issuance of equity and bonds by companies including (i) trading market regulations, (ii) market trade reporting standards, and (iii) listing standards to align with evolving market conditions</p>	<p>Request by the RSEB In line with FMDP objectives of developing capital markets and assisting MCSMLs to access finance.</p> <p>Revision Revised due to inclusion of new PA on AIM (PA 3.2a)</p>

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<p>3.2 b Office of the Registrar approves Corporate Governance & Corporate Social Responsibility Regulations to be adopted by all issuers of debt and equity to improve transparency.</p> <p>3.3 MOWHS (i) completes a nationwide housing demand survey, and (ii) implements financing schemes (using the survey results) which are designed by banks to offer lending products to home buyers.</p>	<p>and revised AIM rules for implementation by March 2022.</p> <p>3.2c. Office of the Registrar approved Corporate Governance & Corporate Social Responsibility Regulations to be applied and complied with by June 2023 by all issuers of debt and equity to improve transparency.</p> <p>3.3 RMA issued directives based on housing market demand survey conducted by MowHS which included gender focused data collection to facilitate affordable housing finance products encompassing tenure, loan to value, and preferential risk weights.</p>	<p>Unchanged.</p> <p>Revised (i) Due to COVID-19 a nationwide survey was not possible. However, a large part of the population in Bhutan are concentrated in urban areas. Gender focus was introduced. (ii) Revised since financial institutions will comply with RMA’s directives on providing housing finance. This revision brings clarity.</p>
<p>3.4 RMA Board approves Insurance Sector Strategy which incorporates widening the scope of insurance products and alternative investments</p>	<p>3.4. RMA Board approved the Insurance Sector Strategy for implementation by June 2023 which incorporates widening the scope of insurance products and alternative investments.</p>	<p>Unchanged.</p>
<p>3.5 RMA approves an NPL Management Strategy to reduce NPLs and decongest financial institution balance sheets for better risk management include (i) foreclosure guidelines, (ii) write-off policy and (iii) capital management, (iv) asset transfer policy to be adopted by both banks and nonbanks</p>	<p>3.5. RMA approved an NPL management Strategy including: (i) foreclosure guidelines, and (ii) write-off policy and asset transfer Policy to be adopted by both banks and nonbanks by June 2023.</p>	<p>Revised The decongestion of the balance sheets of financial institutions would need to be done post COVID-19 which is having a prolonged impact.</p>

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<p>3.6 RMA approves revised rules and regulations on AML and Financial Intelligence of all financial institutions in Bhutan.</p>	<p>3.6. RMA Executive Committee approved and issued for compliance by all financial institutions by March 2022 the following: updated guidelines on Capital Markets, and Money Service Businesses based on sections¹ of the Guideline on Anti Money Laundering and Countering of Financing of Terrorism for Capital Market Intermediaries 2020 and sections 313-332 of the revised Anti Money Laundering and Combating the Financing of Terrorism Rules and Regulations, 2018.</p>	<p>Outside the implementation period Revised as the PA 3.6 of the original subprogram 3 was completed within the subprogram 2 implementation period. However, impact is not lost as it has already been achieved. The PA is strengthened by including capital markets, money service businesses.</p>
<p>3.7 RMA to strengthen the risk-based monitoring based on Basel III guidelines of financial sector (i) RMA approves revised guidelines on Stress testing. (ii) Complete stress testing of all 5 commercial banks. (Presently RMA has completed stress testing of only 2 banks). (iii) RMA completes stress testing of insurance companies. (iv) RMA Board approves the revised Corporate Governance Rules and Regulations.</p>	<p>3.7 a. RMA strengthened the risk-based monitoring based on Basel III guidelines for financial sector by having, (i) approved Risk-Based Supervision Manual, (ii) completed stress testing of all banks, (iii) completed stress testing on non-insurance business of insurance companies, and 3.7 b. RMA developed guidelines on stress testing on insurance companies for the insurance business effective from the immediate next examination cycle in 2022.</p>	<p>Revised PA 3.7 (i) of the original subprogram 3 was completed within the subprogram 2 implementation period. Impact is not lost as it has already been achieved. Instead upon discussions with the government a much-needed risk-based supervision manual was completed. PA3.7 (iii) was revised to clarify that stress testing was on the non-insurance credit business of insurance business as Basel III is not applicable to insurance business. PA 3.7 (iv) of the original subprogram 3 was completed within the subprogram 2 implementation period. Impact is not lost as it has already been achieved. However PA 3.7 b was introduced, which strengthens the insurance sector and supervision.</p>

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3.8 RMA Board approves the Rules and Regulations for Trade Receivable Discounting System (TReDS).	3.8 The RMA Executive Committee developed and approved the Guidelines on Trade Receivables Discounting System to assist commercial banks in implementing relevant sections on trade receivable discounting under the Payment and Settlement System Rules and Regulations approved by the RMA Board in 2018.	Revised Specificity was brought in.
3.9 RMA Board approves the amended Foreign Exchange Rules and Regulations.	NA	Outside the implementation period PA 3.9 of the original subprogram 3 was completed within the subprogram 2 implementation period.
3.10 RMA monitors and enforces financial institutions' compliance with the adoption of IFRS 9 to ensure consistency in reporting and improve risk assessment.	3.9 RMA issued guidelines, with effect from October /September 2021, on compliance with IFRS 9 by financial institutions to ensure consistency in reporting and improve risk assessment.	Revised Specificity brought in but unchanged in contents.
3.11 RMA Board approves the Policy on Centralized Data Warehouse and Data Analytics to ensure better access to information and decision-making.	3.10 RMA Board approved the Policy on Centralized Data Warehouse and Data Analytics to ensure better access to information and decision making with focus on gender disaggregated data in all relevant templates.	Revised. Gender focus was brought in to ensure that information could be used for prudential guidelines and product development.
3.12 RMA Board approves and implement rules and regulations on the warehouse receipt financing to ensure financial institutions commence offering appropriate lending products.	3.11 RMA Board approved and implemented rules and regulations on the warehouse receipt financing to ensure financial institutions commence offering appropriate lending products	Unchanged.

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<p>3.13 RMA approves an inclusive Green Finance Scheme to promote access to finance to entrepreneurs seeking projects which are environmentally friendly including financing options including, relevant accounting standards and supervisory rules.</p>	<p>3.12 RMA Board approved the Green Taxonomy Framework (pillar in the Green Finance Roadmap of RMA) to identify financial products and economic activities that can qualify as green investments in order that financial institutions can introduce new products and services and align existing products with the qualifying green finance definition.</p>	<p>Revised. In order that inclusive green finance schemes are developed the Green Taxonomy as per the Green Finance Roadmap is an important aspect which needs to be addressed first.</p>
<p>3.15 RMA approves and implements a financial technology regulatory sandbox with required revisions to support digital innovation and finance.</p>	<p>3.13 RMA board approved the FinTech Regulatory Sandbox Framework and implemented it through setting up the FinTech website, formation of committees from relevant agencies to perform technical evaluation and produce final report on fintech ideas for sandboxing.</p>	<p>Revised Specificity brought in regarding the implementation part.</p>

Total policy actions under the original subprogram 3 was 15 while the revised subprogram 3 includes 14 policy actions counting the new PA on AIM.