**Diploma in Urban Cooperative Banking**

**RBI** **Notifications during the period 1st January 2020 to 30th June 2020**

**Supervisory Action Framework for Primary (Urban) Co-operative Banks (UCBs)**

RBI/2019-20/135 DOR (PCB).BPD. Cir No. 9/12.05.001/2019-20 January 6, 2020

The Chief Executive Officer, All Primary (Urban) Co-operative Banks

Please refer to our circular UBD.BPD.(PCB). Cir No. 3/12.05.001/2014-15 dated November 27, 2014 on the captioned subject containing the Supervisory Action Framework (SAF) for UCBs. Keeping in view the experience gained, it has been decided to further rationalize the SAF to make it more effective in bringing about the desired improvement in the UCBs as also expeditious resolution of UCBs experiencing financial stress. Reserve Bank will continue to monitor asset quality, profitability and capital / net worth of UCBs under the revised SAF. The main features of the revised SAF are indicated herein below:

**2. Thresholds/triggers and Supervisory Action**

The revised SAF envisages initiation of corrective action by the UCB and/or supervisory action by the Reserve Bank on breach of the specified thresholds (triggers) in respect of the specified financial parameters/indicators. The actions mentioned in the following paragraphs may be taken on breach of the specified thresholds.

**2.1 Asset quality**: A UCB may be placed under SAF when its Net NPAs exceed 6% of its net advances. Depending on the severity of stress, Reserve Bank may take one or more of the following actions:

1. Advising the UCB to submit a Board-approved Action Plan for reducing its Net NPAs below 6%
2. Advising the Board of Directors of the UCB to review the progress under the Action Plan on quarterly/monthly basis
3. Advising the UCB to submit the post-review progress report to Reserve Bank
4. Restriction on declaration/payment of dividend/donation without prior approval of RBI
5. Curtailment of sanction/renewal of credit facilities to sectors/segments having high proportion of NPAs/defaults
6. Reduction in exposure limits for fresh loans and advances
7. Restriction on fresh loans and advances carrying risk-weights more than 100%

**2.2 Profitability**: A UCB may be placed under SAF when it incurs losses for two consecutive financial years or has accumulated losses on its balance sheet. Depending on the severity of stress, Reserve Bank may take one or more of the following actions:

1. Advising the UCB to submit a Board-approved Action Plan for restoring the profitability and/or wiping out the accumulated losses
2. Advising the Board of Directors of the UCB to review of progress under the Action Plan on quarterly (or more frequent) basis.
3. Prohibition on declaration/payment of dividend/donation
4. Restriction on incurring capital expenditure beyond a specified limit, without prior approval of the Reserve Bank
5. Measures for reduction in interest and operating/administrative expenses

**2.3 Capital to Risk-weighted Assets ratio (CRAR):** A UCB may be placed under SAF when its CRAR falls below 9%. Depending on the severity of stress, Reserve Bank may take one or more of the following actions:

1. Advising the UCB to submit a Board-approved Action Plan for increasing the CRAR to 9% or above within 12 months
2. Advising the Board of Directors of the UCB to review the progress under the Action Plan on quarterly/monthly basis and submit the post-review progress report to Reserve Bank
3. Seeking a Board-approved proposal for merging the UCB with another bank or converting itself into a credit society
4. Prohibition on declaration/payment of dividend/donation
5. Restriction on incurring capital expenditure beyond a specified limit, without prior approval of the Reserve Bank
6. Measures for reduction in interest and operating/administrative expenses
7. Reduction in exposure limits for fresh loans and advances
8. Restriction on fresh loans and advances carrying risk-weights beyond the specified limit
9. Restriction on expansion of size of the balance sheet
10. Restriction on fresh borrowings, except for meeting temporary liquidity mismatches
11. Prohibition on sanction/disbursal of fresh loans and advances other than loans against collateral security of term deposits / NSCs / KVPs / insurance policies
12. Prohibition on expansion of size of the deposits

2.4 Actions such as imposition of all-inclusive directions under section 35A of the Banking Regulation Act, 1949 (as applicable to co-operative societies) and issue of show cause notice for cancellation of banking license may be considered by the Reserve bank when continued normal functioning of the UCB is no longer considered to be in the interest of its depositors / public.

**3. Implementation of the revised SAF**

3.1 Supervisory action will normally be initiated on the basis of the financial position of UCBs as assessed during the statutory inspection. However, action may also be taken on the basis of the reported/audited financial position which may be subsequently reviewed, if necessary, on the basis of the statutory inspection findings.

3.2 Although supervisory action taken will primarily be based on the criteria specified under the revised SAF, Reserve Bank will not be precluded from taking appropriate supervisory action in case stress is noticed in other important indicators/parameters or in case of serious governance issues. Reserve Bank will also not be precluded from taking any supervisory actions other than those indicated in this circular, based on merits of each case.

3.3 The revised SAF will be implemented with immediate effect. Supervisory action already taken under the earlier SAF will be reviewed and revised instructions, if any, will be issued to the UCBs concerned.

4. A copy of this circular should be placed before the Board of Directors of your bank in its next meeting and a confirmation thereof should be sent to the concerned Regional Office of Department of Supervision of Reserve Bank of India.

**Provisioning on interbank exposure of Primary (Urban) Co-operative Banks (UCBs) under All Inclusive Directions**

RBI/2019-20/222 DOR.(PCB).BPD.Cir.No.11/16.20.000/2019-20 April 20, 2020

The Chief Executive Officer

All Primary (Urban) Co-operative Banks

As you are aware, the imposition of All-inclusive Directions (AID) on an Urban Co-operative Bank (UCB), inter alia, restricts the bank from discharging its liabilities except as permitted by RBI. This impacts the withdrawal of interbank deposits placed by other UCBs with such bank as also timely discharge of interbank exposures such as discounted bills drawn under Letter of Credit (LC) issued by the UCB under AID.

2. In order to ensure that such exposures are objectively recognised in the financial statements of UCBs and also with a view to addressing the systemic impact of provisioning requirements on such exposures, it has been decided as under:

1. The interbank exposures arising from deposits placed by UCBs with a UCB under AID and their non-performing exposures arising from discounted bills drawn under LCs issued by a UCB under AID shall be fully provided within five years at the rate of 20% annually. Further, the interest receivable on the deposits shall not be recognised as income by the UCBs.
2. If the UCBs choose to convert such deposits into long term perpetual debt instruments (e.g. Innovative Perpetual Debt Instrument - IPDI) which may be recognised as capital instrument under a scheme of restructuring/ revival of a UCB under AID, provision on the portion of deposits converted into such instruments shall not be required.

3. The above instructions will come into force with immediate effect.

**Non-achievement of Priority Sector Lending Targets by Primary (Urban) Co-operative Banks (UCBs) - Contribution to the Rural Infrastructure Development Fund (RIDF) and other funds**

RBI/2019-20/226 DOR (PCB).BPD.Cir.No.12/09.09.002/2019-20 April 24, 2020

The Chief Executive Officer

All Primary (Urban) Co-operative Banks

Please refer to the circular DCBR.BPD (PCB).Cir.No.07/09.09.002/2017-18 dated May 10, 2018 on Revised Guidelines on Lending to Priority Sector for Primary (Urban) Co-operative Banks (UCBs).

2. On a review of the extant guidelines, it has been decided that, with effect from March 31, 2021, all UCBs (excluding those under all-inclusive directions) will be required to contribute to Rural Infrastructure Development Fund (RIDF) established with NABARD and other Funds with NABARD / NHB / SIDBI / MUDRA Ltd., against their priority sector lending (PSL) shortfall vis-à-vis the prescribed target. The operational details in this regard are as under:

The PSL achievement will be determined at the end of the financial year based on the average of priority sector target / sub-target achievement as at the end of each quarter of the year. UCBs (excluding those under all-inclusive directions) having shortfall in PSL lending targets will be allocated amounts for contribution to the Rural Infrastructure Development Fund (RIDF) established with NABARD and other relevant funds, as decided by the Reserve Bank from time to time.

The interest rates on UCBs’ contribution to RIDF and other funds, tenure of deposits, etc. will be fixed by Reserve Bank of India from time to time.

The misclassifications reported by the Reserve Bank's Department of Supervision, if any, would be adjusted / reduced from the achievement of that year to which the amount of declassification / misclassification pertains, for allocation to various funds in subsequent years.

3. It has also been decided that, non-achievement of PSL targets will not be included as one of the criteria for classifying a UCB as Financially Sound and Well Managed (FSWM) with effect from March 31, 2021. However, it will continue to be taken into account while granting regulatory clearances/approvals for various purposes.

4. A copy of this circular should be placed before the Board of Directors of your bank in its next meeting and a confirmation thereof should be sent to the concerned Regional Office of Department of Supervision of Reserve Bank of India.

**Reporting of Large Exposures to Central Repository of Information on Large Credits (CRILC) – UCBs**

RBI/2019-20/144 DoS.OSMOS.No.4633/33.05.018/2019-20 January 16, 2020

Primary (Urban) Co-operative Banks

We draw your attention to RBI Circular DOR (PCB). BPD.Cir.No.7/13.05.000/2019-20 dated December 27, 2019 on "Reporting of Large Exposures to Central Repository of Information on Large Credits (CRILC) - UCBs". In terms of the instructions, Primary (Urban) Co-operative Banks (UCBs) having total assets of ₹500 crore and above as on 31st March of the previous financial year (hereinafter referred to as “banks”) shall report credit information, including classification of an account as Special Mention Account (SMA), on all borrowers having aggregate exposures of ₹5 crore and above with them to Central Repository of Information on Large Credits (CRILC) maintained by the Reserve Bank. Aggregate exposure shall include all fund-based and non-fund based exposure, including investment exposure on the borrower.

2. The operational guidelines for reporting the CRILC– UCBs return are as follows:

1. The reporting frequency of the CRILC– UCBs return is quarterly to start with. The banks need to submit the data on large exposures within 30 days from the end of the quarter through XBRL reporting platform of RBI. Banks may put in place appropriate systems to be in readiness to submit the return on a more frequent periodicity.
2. CRILC – UCBs return will comprise of three sections viz. Section 1: Exposure to Large Borrowers, Section 2: Reporting of Technically / Prudentially Written-off Accounts and Section 3: Reporting of Balance in Current Account, as below:
	1. In Section 1: Exposure to Large Borrowers, the bank needs to report the credit information of all borrowers having aggregate exposures (fund-based, non-fund based and investment exposure) of ₹5 crore and above.
	2. In Section 2: Reporting of Technically / Prudentially Written-off Accounts, the bank needs to report the data on the amount written off, if any, for borrowers whose technically/prudentially written off amount is ₹5 crore or more and which are not reported in Section 1.
	3. In Section 3: Reporting of balance in Current Account, the bank needs to report the data on Current Account holders whose (i) balance (either credit or debit) in current account as on reporting date is ₹1 crore and above or (ii) total of credit summation (sum of all credit transactions) during the reporting quarter is ₹5 crore and above or (iii) total of debit summation (sum of all debit transactions) during the reporting quarter is ₹5 crore and above.
3. The detailed instructions for each Section is provided in the CRILC-UCBs return installer (macro enabled excel template).
4. Banks are advised to take utmost care about data accuracy and integrity while submitting the data on large credits to the Reserve Bank of India, failing which penal action would be undertaken.

3. In the light of DoR instructions referred above and in exercise of the powers conferred under Section 27 (2) read with Section 56 (a)(i) of the Banking Regulation Act, 1949(AACS), you are advised to submit the data in CRILC-UCBs return with effect from the quarter ended December 31, 2019. The format of reporting is enclosed.

**Limits on exposure to single and group borrowers/parties and large exposures and Revision in the target for priority sector lending – UCBs**

RBI/2019-20/171 DOR (PCB).BPD.Cir No.10/13.05.000/2019-20 March 13, 2020

The Chief Executive Officer

All Primary (Urban) Co-operative Banks

Limits on exposure to single and group borrowers/parties and large exposures and Revision in the target for priority sector lending – UCBs

Please refer to paragraph 1 of the Statement on Developmental and Regulatory Policies dated December 5, 2019 (extract enclosed) and the subsequent draft circular on the subject issued on the RBI website, vide Press Release 2019-2020/1541 dated December 30, 2019, for eliciting comments from the stakeholders. After examining the comments received in this regard, the final guidelines on the subject are given below.

**2. Prudential Exposure Limits**

2.1 In terms of our circular UBD.DS. Cir.No.44/13.05.00/2004-05 dated April 15, 2005, Primary (Urban) Co-operative Banks (UCBs) were permitted to have exposures up to 15 per cent and 40 per cent of their capital funds to a single borrower and a group of borrowers, respectively. On a review, it has been decided that, henceforth, the prudential exposure limits for UCBs for a single borrower/party and a group of connected borrowers/parties shall be 15 per cent and 25 per cent, respectively, of their tier-I capital.

2.1.1 The revised exposure limits shall apply to all types of fresh exposures taken by UCBs. UCBs shall bring down their existing exposures which are in excess of the revised limits to within the aforesaid revised limits by March 31, 2023. However, where the existing exposure comprises only term loans and non-fund-based facilities, while no further exposure shall be taken on such borrowers, these facilities may be allowed to continue as per their respective repayment schedule / till maturity.

2.1.2 Tier-I capital as on March 31 of the preceding financial year shall be reckoned for the purpose of fixing the exposure limits. Tier-I capital for the purpose will be the same as that prescribed for computation of capital adequacy of UCBs (vide Master Circular dated July 1, 2015 on Prudential Norms on Capital Adequacy), as amended from time to time.

2.1.3 Whether borrowers/parties belong to a ‘group of connected borrowers/parties’ shall be determined based on the instructions contained at para 2.2.3 and 2.2.4 of the Master Circular DCBR.CO.BPD. (PCB) MC No.13/13.05.000/2015-16 dated July 1, 2015, as amended from time to time.

2.1.4 All other extant instructions on the subject, including the definition of exposure, will remain unchanged.

2.2 UCBs shall have at least 50 per cent of their aggregate loans and advances comprising loans of not more than ₹25 lakh or 0.2% of their tier I capital, whichever is higher, subject to a maximum of Rs.1 crore, per borrower/party. Tier I capital for this purpose shall be reckoned in the manner provided in paragraph 2.1.2 above. Notwithstanding the above, UCBs shall adhere to the revised exposure limits stipulated at para 2.1 above. UCBs which do not, at present, comply with the prescribed threshold shall be in conformity with the above requirements by March 31, 2024.

2.2.1 It is clarified that ‘loans’ for the purpose shall include all types of funded and non-funded exposures in the nature of credit.

**3. Revised Priority Sector Lending Target**

3.1 In terms of the circular DCBR.BPD (PCB).Cir.No.07/09.09.002/2017-18 dated May 10, 2018, the overall priority sector lending (PSL) target for UCBs stood at 40% of the adjusted net bank credit (ANBC) or credit equivalent amount of off-balance sheet exposure (CEOBSE), whichever is higher. On a review, it has been decided that the overall PSL target for UCBs shall stand increased to 75 per cent of ANBC or CEOBSE, whichever is higher.

3.1.1 UCBs shall comply with the above target by March 31, 2024 as per the following milestones:

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| **PSL targets to be achieved by** |
| **March 31, 2021** | **March 31, 2022** | **March 31, 2023** | **March 31, 2024** |
| 45% of ANBC or CEOBSE, whichever is higher | 50% of ANBC or CEOBSE, whichever is higher | 60% of ANBC or CEOBSE, whichever is higher | 75% of ANBC or CEOBSE, whichever is higher |

3.1.2 The extant sub-targets under the priority sector shall remain unchanged.

4. UCBs shall prepare, with the approval of their Board, an Action Plan for compliance with the aforesaid revised exposure limits and priority sector lending targets. They are also advised to establish an appropriate mechanism to regularly monitor the progress made under the Action Plan for compliance with the above instructions.

5. A copy of this circular should be placed before the Board of Directors of the UCB in its next meeting and a confirmation thereof should be sent to the concerned Regional Office of Department of Supervision, Reserve Bank of India.

**Amendment to Master Direction (MD) on KYC**

RBI/2019-20/138 DOR.AML.BC.No.27/14.01.001/2019-20 January 9, 2020

The Chairpersons/ CEOs of all the Regulated Entities

Government of India, vide Gazette Notification G.S.R. 582(E) dated August 19, 2019 and Gazette Notification G.S.R. 840(E) dated November 13, 2019, has notified amendment to the Prevention of Money-laundering (Maintenance of Records) Rules, 2005. Further, with a view to leveraging the digital channels for Customer Identification Process (CIP) by Regulated Entities (REs), the Reserve Bank has decided to permit Video based Customer Identification Process (V-CIP) as a consent based alternate method of establishing the customer’s identity, for customer onboarding.

2. The consequent changes carried out in the Master Direction on KYC dated February 25, 2016, with the aforementioned amendments to the PML Rules and V-CIP are as under:

**A. Changes due to amendments to the PML Rules**

a) “Digital KYC” has been defined in Section 3 as capturing live photo of the customer and officially valid document or the proof of possession of Aadhaar, where offline verification cannot be carried out, along with the latitude and longitude of the location where such live photo is being taken by an authorised officer of the Reporting Entity (RE) as per the provisions contained in the Act. Steps to carry out the Digital KYC process have also been stipulated.

b) “Equivalent e-document” has been defined in Section 3 as an electronic equivalent of a document, issued by the issuing authority of such document with its valid digital signature including documents issued to the digital locker account of the customer as per Rule 9 of the Information Technology (Preservation and Retention of Information by Intermediaries Providing Digital Locker Facilities) Rules, 2016.

c) Section 16 has been amended and accordingly,

I. customer, for the purpose of Customer Due Diligence CDD) process, shall submit:

1. the Aadhaar number where he is desirous of receiving any benefit or subsidy under any scheme notified under section 7 of the Aadhaar (Targeted Delivery of Financial and Other subsidies, Benefits and Services) Act, 2016 (18 of 2016); or he decides to submit his Aadhaar number voluntarily to a banking company or any reporting entity notified under first proviso to sub-section (1) of section 11A of the PML Act; or
2. the proof of possession of Aadhaar number where offline verification can be carried out; or
3. the proof of possession of Aadhaar number where offline verification cannot be carried out or
4. any Officially Valid Document (OVD) or the equivalent e-document thereof containing the details of his identity and address; and
5. the Permanent Account Number or the equivalent e-document thereof or Form No. 60 as defined in Income-tax Rules, 1962; and
6. such other documents including in respect of the nature of business and financial status of the client, or the equivalent e-documents thereof as may be required by the RE.

II. Provided that where the customer has submitted

1. Aadhaar number under paragraph (c.I.i) above to a bank or to a RE notified under first proviso to sub-section (1) of section 11A of the PML Act, such bank or RE shall carry out authentication of the customer’s Aadhaar number using e-KYC authentication facility provided by the Unique Identification Authority of India.
2. proof of possession of Aadhaar under clause (c.I.ii) above where offline verification can be carried out, the RE shall carry out offline verification
3. an equivalent e-document of any OVD, the RE shall verify the digital signature as per the provisions of the Information Technology Act, 2000 (21 of 2000) and any rules issues thereunder and take a live photo as specified under Annex I of the Master Direction.
4. proof of possession of Aadhaar number where offline verification cannot be carried out under clause (c.I.iii) above or any OVD under clause (c.I.iv), the RE shall carry out verification through digital KYC as specified under Annex I of the Master Direction.

Provided, for a period not beyond such date as may be notified by the Government for a class of REs, instead of carrying out digital KYC, the RE pertaining to such class may obtain a certified copy of the proof of possession of Aadhaar number or the OVD and a recent photograph where an equivalent e-document is not submitted.

III. Equivalent e-document has also been permitted for accounts of non-individual customer.

IV. Where a customer has provided his Aadhaar number under paragraph (c.I.i) above for identification and wants to provide a current address, different from the address as per the identity information available in the Central Identities Data Repository, he may give a self-declaration to that effect to the Regulated Entity.

**B. Changes due to introduction of Video based Customer Identification Process (V-CIP)**

* 1. Definition of V-CIP has been inserted in Section 3 of the Master Direction
	2. The process of V-CIP has been specified in Section 18 in terms of which, REs may undertake live V-CIP, to be carried out by an official of the RE, for establishment of an account based relationship with an individual customer, after obtaining his informed consent and shall adhere to the following stipulations:

i. The official of the RE performing the V-CIP shall record video as well as capture photograph of the customer present for identification and obtain the identification information as below:

* Banks: can use either OTP based Aadhaar e-KYC authentication or Offline Verification of Aadhaar for identification. Further, services of Business Correspondents (BCs) may be used by banks for aiding the V-CIP.
* REs other than banks: can only carry out Offline Verification of Aadhaar for identification.

ii. RE shall capture a clear image of PAN card to be displayed by the customer during the process, except in cases where e-PAN is provided by the customer. The PAN details shall be verified from the database of the issuing authority.

iii. Live location of the customer (Geotagging) shall be captured to ensure that customer is physically present in India

iv. The official of the RE shall ensure that photograph of the customer in the Aadhaar/PAN details matches with the customer undertaking the V-CIP and the identification details in Aadhaar/PAN shall match with the details provided by the customer.

v. The official of the RE shall ensure that the sequence and/or type of questions during video interactions are varied in order to establish that the interactions are real-time and not pre-recorded.

vi. In case of offline verification of Aadhaar using XML file or Aadhaar Secure QR Code, it shall be ensured that the XML file or QR code generation date is not older than 3 days from the date of carrying out V-CIP.

vii. All accounts opened through V-CIP shall be made operational only after being subject to concurrent audit, to ensure the integrity of process.

viii. RE shall ensure that the process is a seamless, real-time, secured, end-to-end encrypted audiovisual interaction with the customer and the quality of the communication is adequate to allow identification of the customer beyond doubt. RE shall carry out the liveliness check in order to guard against spoofing and such other fraudulent manipulations.

ix. To ensure security, robustness and end to end encryption, the REs shall carry out software and security audit and validation of the V-CIP application before rolling it out.

x. The audiovisual interaction shall be triggered from the domain of the RE itself, and not from third party service provider, if any. The V-CIP process shall be operated by officials specifically trained for this purpose. The activity log along with the credentials of the official performing the V-CIP shall be preserved.

xi. REs shall ensure that the video recording is stored in a safe and secure manner and bears the date and time stamp.

xii. REs are encouraged to take assistance of the latest available technology, including Artificial Intelligence (AI) and face matching technologies, to ensure the integrity of the process as well as the information furnished by the customer. However, the responsibility of customer identification shall rest with the RE.

xiii. RE shall ensure to redact or blackout the Aadhaar number in terms of Section 16.

xiv. BCs can facilitate the process only at the customer end and as already stated in para B(b) above, the official at the other end of V-CIP interaction should necessarily be a bank official. Banks shall maintain the details of the BC assisting the customer, where services of BCs are utilized. The ultimate responsibility for customer due diligence will be with the bank.

3. The Master Direction on KYC dated February 25, 2016, is hereby updated to reflect the above changes and shall come into force with immediate effect.

**Amendment to Master Direction (MD) on KYC**

RBI/2019-20/207 DOR.AML.BC.No.61/14.01.001/2019-20 April 01, 2020

The Chairpersons/ CEOs of all the Regulated Entities

Government of India, vide Gazette Notification G.S.R. 228(E) dated March 31, 2020 has notified amendment to the Prevention of Money-laundering (Maintenance of Records) Rules, 2005.

2. Consequent to the aforementioned amendment to the PML Rules, Master Direction on KYC dated February 25, 2016 has been updated as under:

Clause (g) has been inserted in the conditions stipulated for Small Accounts in Section 23 of the MD. Clause (g) reads as,

“Notwithstanding anything contained in clauses (e) and (f) above, the small account shall remain operational between April 1, 2020 and June 30, 2020 and such other periods as may be notified by the Central Government.”

3. The Master Direction on KYC dated February 25, 2016, is hereby amended to reflect the above change and shall come into force with immediate effect.

**Internal ML/TF risk assessment by REs - Amendment to Master Direction (MD) on KYC**

RBI/2019-20/221 DOR.AML.BC.No.66/14.01.001/2019-20 April 20, 2020

The Chairpersons/ CEOs of all the Regulated Entities

The Master Direction on KYC dated February 25, 2016, is hereby updated to reflect the following changes in line with Rule 9(13) of the PML Rules 2005:

A new section (5A) has been added to chapter II of the MD on KYC requiring REs to carry out ‘Money Laundering (ML) and Terrorist Financing (TF) Risk Assessment’ exercise periodically to identify, assess and take effective measures to mitigate its money laundering and terrorist financing risk for clients, countries or geographic areas, products, services, transactions or delivery channels, etc. While assessing the ML/TF risk, the REs are required to take cognizance of the overall sector-specific vulnerabilities, if any, that the regulator/supervisor may share with REs from time to time. Further, the internal risk assessment carried out by the RE should be commensurate to its size, geographical presence, complexity of activities/structure, etc.

Also, the REs shall apply a Risk Based Approach (RBA) for mitigation and management of the identified risk and should have Board approved policies, controls and procedures in this regard.

2. The above instructions shall come into force with immediate effect. It may be noted that the first such internal risk assessment by the REs should be completed by June 30, 2020 and thereafter reviewed periodically.

**Extending Master Direction – Know Your Customer (KYC) Direction, 2016 to Housing Finance Companies**

RBI/2019-20/235 DOR.NBFC (HFC).CC.No.111/03.10.136/2019-20 May 19, 2020

To

Housing Finance Companies

The Master Direction – Know Your Customer (KYC) Direction, 2016 issued by the Bank has consolidated directions on Know Your Customer (KYC), Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT) and is applicable to all Regulated Entities of the Bank. In this connection, attention is invited to our Press Release no.2019-2020/419 dated August 13, 2019 on transfer of regulation of Housing Finance Companies to Reserve Bank of India.

2. It has been decided to extend the Master Direction – Know Your Customer (KYC) Direction, 2016 to all Housing Finance Companies.

3. Instructions/ guidelines/ regulations contained in the circulars mentioned in the Appendix, issued by National Housing Bank (erstwhile regulator of Housing Finance Companies) stand repealed.

**Framework for imposing monetary penalty on authorised payment system operators / banks under the Payment and Settlement Systems Act, 2007**

RBI/2019-20/140 DPSS.CO.OD.No.1328/06.08.005/2019-20 January 10, 2020

The Chairman / Managing Director / Chief Executive Officer

Authorised Payment System Operators / Banks

Please refer to the Reserve Bank of India (RBI) circular DPSS.CO.OD.No.1082/06.08.005/2016-17 dated October 20, 2016 advising the framework for imposition of monetary penalty and compounding of contraventions / offences under Sections 30 and 31, respectively of the Payment and Settlement Systems (PSS) Act, 2007.

2. The payment system landscape has witnessed rapid developments since then with increased adoption of technology, availability of payment products, entry of more non-bank players, dis-intermediation, significant surge in turnover, etc. To ensure that the payment systems are safe and secure and the various stakeholders conform to regulatory requirements, on review it has been decided to revise the process of levy of penalty on payment system operators by the Reserve Bank of India.

3. A table showing the changes made to the existing framework is in Annex 1; salient features of the revised framework are in Annex 2. The revised framework continues to centre around objectivity and transparency in the decision-making process. It may be noted that action taken under this framework would be without prejudice to any other laws of the country.

**Annex 1**

**Framework for imposing monetary penalty on authorised payment system operators / banks under the Payment and Settlement Systems Act, 2007 – Existing framework vis-à-vis the Revised framework**

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| --- | --- | --- | --- |
| **Sr. No.** | **Subject** | **Existing Framework(Circular dated October 20, 2016)** | **Revised Framework(Circular dated January 10, 2020)** |
| 1. | Powers of RBI to impose fine and compound | Powers of RBI to impose fine and compound contraventions have been mentioned; the type of contravention / violation for which RBI has powers to impose fine and compound, are not explicitly indicated. | RBI has powers to impose monetary penalty in respect of certain contraventions as well as compound certain contraventions. The type / nature of contravention for which penalty can be imposed and compounded are different and vary. This has been detailed including the procedure to be followed. |
| 2. | Procedure for imposing monetary penalty / fine | Single procedure for imposing monetary penalty / fine in respect of contraventions identified by RBI as well as compounding of contraventions. | Considering that the powers of RBI to impose monetary penalty and compound contraventions are different, and further that the nature of identification of contraventions is also different, separate procedures have been proposed. |
| 3. | Delegation of powers to impose fine and compound contraventions | There is no mention of delegation of powers or about the designated authority. | The powers to impose monetary penalty on account of RBI identified contraventions and compounding of contraventions have been separated. |
|  |
| 4. | Issuance of Show Cause Notice (SCN) | In case RBI is not satisfied with the explanation furnished by the contravener, a SCN shall be issued. There is no methodology for considering various parameters to decide on its issue. | The decision to issue SCN will be based on certain parameters dovetailed in a Scoring Matrix. |  |
| 5. | Action based on nature of contravention | No such procedure. | Will depend on whether the contraventions are quantifiable or non-quantifiable. |  |
| 6. | Amount of monetary penalty | For quantifiable contraventions – a minimum penalty of Rs. 5 lakh.For non-quantifiable contraventions - a penalty of minimum Rs. 5 lakh with a maximum of Rs. 1 crore. | Objective methodology dovetailed into a scoring matrix to determine the amount of penalty to be imposed, including action for non-compliance. |  |
| 7. | Type of contraventions that can be compounded | All contraventions could be compounded. | All offences mentioned in Section 26 of PSS Act, 2007 except those relating to sub-section 2 of Section 26, can be compounded.All eligible contraventions, irrespective of its nature of being quantifiable or non-quantifiable, shall be compounded. |  |

**Annex 2**

**1. Offences and Penalties**

1.1 Section 26 of the Payment and Settlement Systems (PSS) Act, 2007 defines the following activities as offences, which are punishable with imprisonment or fine or both:

1. operation of a payment system without authorisation by RBI;
2. failure to comply with the terms and conditions subject to which authorisation was issued;
3. wilful submission of a false statement of information or wilful omission to submit a material statement in any application for authorisation or return or other document;
4. failure to produce any statement, information, returns or documents;
5. disclosure of any prohibited information;
6. non-compliance of RBI directions or failure to pay the penalty imposed by RBI; and
7. contravention of any provisions of the Act or of any regulation, order or direction made or given thereunder, in respect of which no penalty has been specified.

**2. Powers of RBI to impose fine**

2.1 In terms of Section 30 of the PSS Act, RBI is empowered to impose a penalty not exceeding ₹ 5 lakh or twice the amount involved in such contravention or default where such amount is quantifiable, whichever is more, in case of contraventions / defaults of the nature mentioned in Section 26 (2) and 26 (6) of the Act. Further, if such contravention or default is a continuing one, a further penalty up to ₹ 25,000/- for every day after the first during which the contravention or default continues, can be imposed.

**3. Powers of RBI to compound offences**

3.1 Section 31 of PSS Act empowers RBI to compound contraventions of any of the punishable offences under the Act, not being an offence punishable with imprisonment / imprisonment and fine.

4. With the continuous evolution and increased pace of development of payment landscape in the country, including the entry of non-bank players leveraging the technological developments, and the consequent requirement to ensure safe, secure and efficient payment systems, a need was felt to review the entire process of levy of penalty so as to ensure the efficacy of implementation of various RBI directions and regulations.

5. Accordingly, the entire process has been reviewed and a revised framework, as briefed below, is being put in place with immediate effect.

**6. Principles for imposing monetary penalty / compounding a contravention**

6.1 Following factors will be considered for determining the materiality of a contravention, whether on account of those identified by RBI or a compounding application from the contravener:

1. Severity of contravention in terms of degree of breach of norms/limits (isolated, localised, extensive, widespread);
2. Period and frequency of a similar contravention during the past 5 years;
3. Seriousness of the contravention; Percentage of amount involved in the contravention vis-à-vis total value of transactions handled by the contravener during the period under consideration;
4. Amount involved in the contravention; and
5. Submission of wrong / false / incomplete compliance.

6.2 Following factors will be considered for determining the amount of monetary penalty to be imposed on any entity, resulting from 6.1 above:

1. Amount of gain or unfair advantage, wherever quantifiable, accruing to the contravener as a result of the contravention;
2. Amount of loss caused to any other authority / agency / exchequer and / or to any other market participant;
3. Monetary benefits accruing to the contravener from delayed / non-compliance;

**7. Imposition of monetary penalty for RBI identified contraventions**

(i) An indicative list of the contraventions / violations is as under:

1. Wilful submission of a false statement of information or wilful omission of a material statement to RBI;
2. Delay / non / incomplete / incorrect submission of various statutory / regulatory returns / statements / documents, etc.;
3. Contravention of any provisions of the Act or of any regulation, directions / instructions made thereunder;
4. Issues in maintenance of net worth requirements, etc.
5. Non-compliance with Know Your Customer (KYC) and Anti-Money Laundering (AML) norms;
6. Issues in maintenance of nodal / escrow accounts;
7. Breach of limits in loading, fund transfer, etc. of PPIs;
8. Inadequacies in storage of payment system data in India; and
9. Any other contravention of directions / instructions – specific or general.

(ii) Designated authority to impose penalty

* In case of quantifiable contraventions, a Committee of Senior Officers, comprising of the Chief General Manager / Officer-in-Charge, Department of Payment and Settlement Systems (DPSS), Central Office and senior officers from two other Departments of RBI, shall be the designated authority.
* In case of non-quantifiable contraventions, a Committee, comprising of ED in-Charge of DPSS and Chief General Managers from two other Departments of RBI (Committee of CGMs), shall be the designated authority.
* For contraventions, partly quantifiable and partly non-quantifiable, the Committee of CGMs shall be the designated authority.

(iii) Procedure for imposing penalty

1. **Call for information**: On receipt of information on a contravention, RBI may call for additional information from the contravener.
2. **Issue of Explanation Letter**: On identification of a contravention, a letter calling for explanation would be issued to the contravener.
3. **Issue of Show Cause Notice (SCN):**
* If the RBI is not satisfied with the reasons / explanations furnished by the contravener, an SCN may be issued based on the parameters mentioned in para 6.1 above, advising the contravener to show cause as to why the amount specified in the notice should not be imposed as penalty. For the purpose, a matrix has been formulated to derive a weighted score based on certain parameters.
* In cases where a contravener has already been issued with more than one Cautionary / Warning / Displeasure letters for a particular type of contravention by RBI on earlier occasions of contraventions during the last 5 years, an SCN shall be issued on the subsequent occasion/s irrespective of the overall weighted score arrived at.
1. **Personal Hearing**: The contravener shall be provided with a reasonable opportunity of being heard, if requested by the contravener in reply to the SCN.
2. **Issue of Speaking Order**: The Designated Authority shall pass a Speaking Order based on the information and supportive documents presented by the contravener and also the submissions made in this connection by them during the personal hearing.

(iv) Amount of monetary penalty:

1. The amount of monetary penalty may vary depending on impact on account of various factors.
2. The amount of monetary penalty for a contravention shall not exceed ₹ 5 lakh or double the amount of contravention, whichever is higher, where such amount is quantifiable. For non-quantifiable contravention, the maximum penalty shall be ₹ 5 lakh per contravention.
3. A Matrix has been formulated for determining the amount of penalty. The actual amount may vary depending on the circumstances of the cases.
4. The amount of penalty, after considering the mitigating factors, may differ depending upon the extent of overall weighted score, as given in Appendix 1. In case where the amount of resultant penalty may affect the viability of the contravener or otherwise disproportionate or unfair, or even where neither the extent of impact nor the intent of committing the contravention is clearly established, the designated authority may exercise its discretionary power and take a fair view to either reduce or impose an appropriate amount of penalty, subject to statutory limits.

(v) Payment of monetary penalty:

1. The monetary penalty shall be payable within a period of thirty days from the date of the order.
2. In case of failure in payment of penalty amount, RBI will initiate appropriate action against the contravener as per Section 8 or Section 30 (3) or Section 33 of PSS Act.

(vi) Disclosure:

1. The entities shall disclose the details of monetary penalty paid in their Notes to Accounts that are part of Annual Financial Statements for the financial year in which the penalty is levied.
2. RBI shall disclose the penalty levied on its website.

**8. Compounding of contraventions**

(i) An indicative list of the contraventions / violations for compounding, is as under:

1. Failure to comply with the terms and conditions of authorisation issued by RBI;
2. Failure to produce / furnish any statement, information, returns or other documents to RBI or answer any question relating to the operation of payment system;
3. Disclosure of any information prohibited under Section 22 of PSS Act;
4. Non-compliance / contravention of any provisions of the Act / Regulation / order / directions made or given in respect of which no penalty has been specified in the Act;
5. Violations of KYC / AML norms;
6. Delay / non / incomplete / incorrect submission of various statutory / regulatory returns / statements / documents, etc. (other than an act punishable under sub-section 2 of Section 26)
7. Issues in maintenance of nodal/escrow accounts;
8. Breach of limits in loading, fund transfer, etc. of PPIs;
9. Inadequacies in storage of payment system data in India; and
10. Any other contravention of directions / instructions – specific or general.

(ii) Compounding Authority – The CGM / Officer-in-charge, DPSS, Central Office will be the Compounding Authority for cases of compounding involving quantifiable contraventions, and ED-in-charge of DPSS will be the Compounding Authority for compounding cases involving non-quantifiable contraventions.

(iii) Eligibility for compounding:

1. All contraventions (quantifiable or non-quantifiable) of the nature of offences mentioned in Section 26 (1), (3), (4), (5) and (6) of PSS Act, 2007, are liable to be compounded.
2. The cases which involve money laundering, terror financing or affect sovereignty and integrity of nation, shall not be compounded by RBI.
3. The applications submitted for compounding of eligible contraventions shall be accepted by RBI even if the same is pending before any court of law (on the basis of complaint filed by RBI).
4. Where a contravention has been compounded by RBI, no proceeding or further proceeding shall be initiated or continued, as the case may be, against the person committing such contravention, in respect of the contravention so compounded.

(iv) Procedure for compounding:

1. Submission of compounding application: A contravener wishing to seek compounding of eligible contraventions, shall submit an application, along with information relating to facts and circumstances resulting in commission of contravention, a copy of Memorandum and Articles of Association and latest audited balance sheet, in the prescribed format (Appendix 2) to the Chief General Manager, Department of Payment and Settlement Systems, Reserve Bank of India, Central Office, Mumbai. He / she shall also give an undertaking that they are not under any enquiry / investigation / adjudication by any Law Enforcement Agency, such as Directorate of Enforcement, Directorate of Revenue Intelligence, Central Bureau of Investigation, etc.
2. Examination of Compounding Application: On receipt of the application for compounding, the same shall be examined by RBI and taken up for compounding process.
3. Call for information: The RBI may call for any information, record or any other documents relevant to the contravention.
4. Personal Hearing: The contravener shall be provided with a reasonable opportunity of being heard by the respective Compounding Authority irrespective of whether the contravener has opted for the same.
5. Issue of Compounding Order: The Compounding Authority shall pass an order in the compounding application as expeditiously as possible, but not later than a period of 6 months from the date of receipt of the complete Compounding Application.

(v) Compounding Amount:

1. The basis for calculation of compounding amount will be the same as for penalties (as prescribed in Appendix 1).
2. The compounding amount may be 25% less than the calculated amount (as per Appendix 1) that would have otherwise been imposed under Section 30 of the Act.
3. The compounding amount shall not exceed ₹ 5 lakh or double the amount of contravention, whichever is higher, in case of quantifiable contraventions, whereas in respect of non-quantifiable contraventions it shall not exceed ₹ 5 lakh.
4. In case of repeated contraventions (within a period of 5 years) in respect of which compounding has been done on earlier occasion, the compounding amount may be increased by 50 per cent of the calculated amount (as per Appendix 1).

(vi) Payment of compounding amount:

1. The amount specified in the Order of Compounding shall be paid within a period of 30 days from the date of the Order.
2. In case of failure to pay the compounding amount for which contravention was earlier compounded, it shall be deemed that the contravener did not make an application for compounding of contravention under the PSS Act, and the RBI shall be free to take appropriate action under the Act.

(vii) Disclosure: RBI shall make public the compounding amount levied on the entity for compounding of contraventions on its website.

**Cash withdrawal using Point of Sale (PoS) terminals**

RBI/2019-20/154 DPSS.CO.PD No.1465/02.14.003/2019-20 January 31, 2020

The Chairman / Managing Director / Chief Executive Officer

All Scheduled Commercial Banks (SCBs) including Regional Rural Banks (RRBs) / Urban Co-operative Banks (UCBs) / State Co-operative Banks (StCBs) / District Central Co-operative Banks (DCCBs) / Payments Banks (PBs) /Small Finance Banks (SFBs) / Authorised Card Payment Networks

Please refer to our circulars DPSS.CO.PD.No.147/02.14.003/2009-10 dated July 22, 2009, DPSS.CO.PD.No.563/02.14.003/2013-14 dated September 5, 2013, DPSS.CO.PD.No.449/02.14.003/2015-16 dated August 27, 2015 and DPSS.CO.PD.No.501/02.14.003/2019-20 dated August 29, 2019, in terms of which banks are required to obtain one time permission from the Reserve Bank of India (RBI) for offering the facility of cash withdrawal at PoS terminals deployed by them.

2. It has been decided that the requirement of obtaining permission from the RBI be dispensed with and that henceforth, banks may, based on the approval of their Board, provide cash withdrawal facility at PoS terminals. The designated merchant establishments may be advised to clearly indicate / display the availability of this facility along with the charges, if any, payable by the customer.

3. All other provisions, including those pertaining to the submission of data / reports to RBI, shall continue as hitherto.

4. These directions are issued under Section 10(2) of Payment and Settlement Systems Act, 2007 (Act 51 of 2007).

**Date: Jun 05, 2020**

**RBI announces creation of Payments Infrastructure Development Fund**

The Reserve Bank announces creation of a Payments Infrastructure Development Fund (PIDF) to encourage acquirers to deploy Points of Sale (PoS) infrastructure (both physical and digital modes) in tier-3 to tier-6 centres and north eastern states.

Over the years, payments ecosystem in the country has evolved with a wide range of options such as bank accounts, mobile phones, cards, etc. To provide further fillip to digitisation of payment systems, it is necessary to give impetus to acceptance infrastructure across the country, more so in underserved areas.

The Reserve Bank will make an initial contribution of ₹250 crores to the PIDF covering half the fund and remaining contribution will be from card issuing banks and card networks operating in the country. The PIDF will also receive recurring contributions to cover operational expenses from card issuing banks and card networks. The Reserve Bank will also contribute to yearly shortfalls, if necessary.

The PIDF will be governed through an Advisory Council and managed and administered by Reserve Bank.

**Reserve Bank sensitises members of public on safe use of digital transactions**

 **Date: Jun 22, 2020**

Safety and security of digital transactions are of paramount importance to their users. The Reserve Bank has put in place many mechanisms to ensure the same by continuously and actively undertaking digital awareness campaigns in the print and Audio-Visual media, including through the Bank’s flagship programme **“RBI Kehta Hai”.**

In recent days there are reports of users falling prey to fraudsters who are luring them on fictitious pretexts, such as alleged completion of KYC requirements, impersonating identities and websites of banks and payment system operators, etc.

To promote safe digital transactions among the general public it is reiterated that users should take care by (i) not sharing with anyone their ATM / Card (Debit / Credit / Prepaid) details; (ii) not sharing their Password, PIN, OTP, CVV, UPI-PIN, etc.; (iii) avoid undertaking banking or other financial transactions through public, open or free wifi-networks; and (iv) not storing important banking data on the mobile, e-mail, electronic wallet or purse. Consumers may remember that banks and other payment systems operators never ask for details such as password, PIN, OTP, CVV number.

**Instances of Payment Frauds – Enhancing Public Awareness Campaigns Through Multiple Channels**

RBI/2019-20/256 DPSS.CO.OD.No.1934/06.08.005/2019-20 June 22, 2020

The Chairman / Managing Director / Chief Executive Officer

Authorised Payment System Operators (banks and non-banks) / Participants of Payment Systems (banks and non-banks)

As you are aware, safety and security of digital transactions are of paramount importance. Reserve Bank has been taking measures to improve awareness through its e-BAAT programmes and organising campaigns on safe use of digital payment modes, to avoid sharing critical personal information like PIN, OTP, passwords, etc.

2. Inspite of these initiatives, incidence of frauds continue to bedevil digital users, often using the same modus operandi users were cautioned about, such as luring them to disclose vital payment information, swapping sim cards, opening links received in messages and mails, etc. There are also cases of users being tricked into downloading spurious apps that access critical information stored on devices. It is, therefore, essential that all payment systems operators and participants – banks and non-banks – continue and reinforce efforts to spread awareness about digital safety.

3. All authorised payment systems operators and participants are hereby advised to undertake targeted multi-lingual campaigns by way of SMSs, advertisements in print and visual media, etc., to educate their users on safe and secure use of digital payments.

**Enhancing Security of Card Transactions**

RBI/2019-20/142 DPSS.CO.PD No.1343/02.14.003/2019-20 January 15, 2020

The Chairman / Managing Director / Chief Executive Officer

All Scheduled Commercial Banks (SCBs) including Regional Rural Banks (RRBs) / Urban Co-operative Banks (UCBs) / State Co-operative Banks (StCBs) / District Central Co-operative Banks (DCCBs) / Payments Banks (PBs) / Small Finance Banks (SFBs) / Local Area Banks (LABs) / Authorised Card Payment Networks / Non-Bank PPI issuers

Over the years, the volume and value of transactions made through cards have increased manifold. To improve user convenience and increase the security of card transactions, it has been decided as under:

a) At the time of issue / re-issue, all cards (physical and virtual) shall be enabled for use only at contact-based points of usage [viz. ATMs and Point of Sale (PoS) devices] within India. Issuers shall provide cardholders a facility for enabling card not present (domestic and international) transactions, card present (international) transactions and contactless transactions, as per the process outlined in para 1 (c).

b) For existing cards, issuers may take a decision, based on their risk perception, whether to disable the card not present (domestic and international) transactions, card present (international) transactions and contactless transaction rights. Existing cards which have never been used for online (card not present) / international / contactless transactions shall be mandatorily disabled for this purpose.

c) Additionally, the issuers shall provide to all cardholders:

1. facility to switch on / off and set / modify transaction limits (within the overall card limit, if any, set by the issuer) for all types of transactions – domestic and international, at PoS / ATMs / online transactions / contactless transactions, etc.;
2. the above facility on a 24x7 basis through multiple channels - mobile application / internet banking / ATMs / Interactive Voice Response (IVR); this may also be offered at branches / offices;
3. alerts / information / status, etc., through SMS / e-mail, as and when there is any change in status of the card.

2. The provisions of this circular are not mandatory for prepaid gift cards and those used at mass transit systems.

3. Issuers and card networks may give wide publicity to the provisions of this circular.

4. These directions are issued under Section 10(2) of the Payment and Settlement Systems Act, 2007 (Act 51 of 2007) and shall come into effect from March 16, 2020.

**COVID-19 – Regulatory Package (Revised).**

RBI/2019-20/186 DOR.No.BP.BC.47/21.04.048/2019-20 March 27, 2020

All Commercial Banks (including Small Finance Banks, Local Area Banks and Regional Rural Banks) /All Primary (Urban) Co-operative Banks/State Co-operative Banks/ District Central Co-operative Banks /All All-India Financial Institutions/ All Non-Banking Financial Companies (including Housing Finance Companies)

Please refer to the Statement of Development and Regulatory Policies released on March 27, 2020 where inter alia certain regulatory measures were announced to mitigate the burden of debt servicing brought about by disruptions on account of COVID-19 pandemic and to ensure the continuity of viable businesses. In this regard, the detailed instructions are as follows:

**(i) Rescheduling of Payments – Term Loans and Working Capital Facilities**

2. In respect of all term loans (including agricultural term loans, retail and crop loans), all commercial banks (including regional rural banks, small finance banks and local area banks), co-operative banks, all-India Financial Institutions, and NBFCs (including housing finance companies) (“lending institutions”) are permitted to grant a moratorium of three months on payment of all instalments1 falling due between March 1, 2020 and May 31, 2020. The repayment schedule for such loans as also the residual tenor, will be shifted across the board by three months after the moratorium period. Interest shall continue to accrue on the outstanding portion of the term loans during the moratorium period.

3. In respect of working capital facilities sanctioned in the form of cash credit/overdraft (“CC/OD”), lending institutions are permitted to defer the recovery of interest applied in respect of all such facilities during the period from March 1, 2020 upto May 31, 2020 (“deferment”). The accumulated accrued interest shall be recovered immediately after the completion of this period.

**(ii) Easing of Working Capital Financing**

4. In respect of working capital facilities sanctioned in the form of CC/OD to borrowers facing stress on account of the economic fallout of the pandemic, lending institutions may recalculate the ‘drawing power’ by reducing the margins and/or by reassessing the working capital cycle. This relief shall be available in respect of all such changes effected up to May 31, 2020 and shall be contingent on the lending institutions satisfying themselves that the same is necessitated on account of the economic fallout from COVID-19. Further, accounts provided relief under these instructions shall be subject to subsequent supervisory review with regard to their justifiability on account of the economic fallout from COVID-19.

**Classification as Special Mention Account (SMA) and Non-Performing Asset (NPA)**

5. Since the moratorium/deferment/recalculation of the ‘drawing power’ is being provided specifically to enable the borrowers to tide over economic fallout from COVID-19, the same will not be treated as concession or change in terms and conditions of loan agreements due to financial difficulty of the borrower under paragraph 2 of the Annex to the Reserve Bank of India (Prudential Framework for Resolution of Stressed Assets) Directions, 2019 dated June 7, 2019 (“Prudential Framework”). Consequently, such a measure, by itself, shall not result in asset classification downgrade.

6. The asset classification of term loans which are granted relief as per paragraph 2 shall be determined on the basis of revised due dates and the revised repayment schedule. Similarly, working capital facilities where relief is provided as per paragraph 3 above, the SMA and the out of order status shall be evaluated considering the application of accumulated interest immediately after the completion of the deferment period as well as the revised terms, as permitted in terms of paragraph 4 above.

7. The rescheduling of payments, including interest, will not qualify as a default for the purposes of supervisory reporting and reporting to Credit Information Companies (CICs) by the lending institutions. CICs shall ensure that the actions taken by lending institutions pursuant to the above announcements do not adversely impact the credit history of the beneficiaries.

**Other Conditions**

8. Lending institutions shall frame Board approved polices for providing the above-mentioned reliefs to all eligible borrowers, inter alia, including the objective criteria for considering reliefs under paragraph 4 above and disclosed in public domain.

9. Wherever the exposure of a lending institution to a borrower is ₹ 5 crore or above as on March 1, 2020, the bank shall develop an MIS on the reliefs provided to its borrowers which shall inter alia include borrower-wise and credit-facility wise information regarding the nature and amount of relief granted.

10. The instructions in this circular come into force with immediate effect. The Board of Directors and the key management personnel of the lending institutions shall ensure that the above instructions are properly communicated down the line in their respective organisations, and clear instructions are issued to their staff regarding their implementation.

**COVID 19 Regulatory Package - Asset Classification and Provisioning**

RBI/2019-20/220 DOR.No.BP.BC.63/21.04.048/2019-20 April 17, 2020

All Commercial Banks (including Small Finance Banks, Local Area Banks and Regional Rural Banks) /All Primary (Urban) Co-operative Banks/State Co-operative Banks/ District Central Co-operative Banks/ All All-India Financial Institutions/ All Non-Banking Financial Companies (including Housing Finance Companies)

Please refer to the Governor’s Statement of April 17, 2020 announcing certain additional regulatory measures aimed at alleviating the lingering impact of Covid19 pandemic on the businesses and financial institutions in India, consistent with the globally coordinated action committed by the Basel Committee on Banking Supervision. In this regard, the detailed instructions with regard to asset classification and provisioning are as follows:

**(i) Asset Classification under the Prudential norms on Income Recognition, Asset Classification (IRAC)**

2. In terms of the circular DOR.No.BP.BC.47/21.04.048/2019-20 dated March 27, 2020 (‘Regulatory Package’), the lending institutions were permitted to grant a moratorium of three months on payment of all term loan instalments falling due between March 1, 2020 and May 31, 2020 (‘moratorium period’). As such, in line with the clarification provided by the Basel Committee on Banking Supervision, in respect of all accounts classified as standard as on February 29, 2020, even if overdue, the moratorium period, wherever granted, shall be excluded by the lending institutions from the number of days past-due for the purpose of asset classification under the IRAC norms.

3. Similarly in respect of working capital facilities sanctioned in the form of cash credit/overdraft (“CC/OD”), the Regulatory Package permitted the recovery of interest applied during the period from March 1, 2020 upto May 31, 2020 to be deferred (‘deferment period’). Such deferment period, wherever granted in respect of all facilities classified as standard, including SMA, as on February 29, 2020, shall be excluded for the determination of out of order status.

4. NBFCs which are required to comply with Indian Accounting Standards (IndAS) shall, as hitherto, continue to be guided by the guidelines duly approved by their Boards and as per ICAI Advisories for recognition of the impairments.

**(ii) Provisioning**

5. In respect of accounts in default but standard where provisions of paragraphs (2) and (3) above are applicable, and asset classification benefit is extended, lending institutions shall make general provisions of not less than 10 per cent of the total outstanding of such accounts, to be phased over two quarters as under:

(i) Quarter ended March 31, 2020 – not less than 5 per cent

(ii) Quarter ending June 30, 2020 – not less than 5 per cent

6. The above provisions may be adjusted against the actual provisioning requirements for slippages from the accounts reckoned for such provisions. The residual provisions at the end of the financial year can be written back or adjusted against the provisions required for all other accounts.

7. The above provisions shall not be reckoned for arriving at net NPAs till they are adjusted against the actual provisioning requirements as under paragraph 6 above. Further, till such adjustments, these provisions shall not be netted from gross advances but shown separately in the balance sheet as appropriate.

8. All other provisions required to be maintained by lending institutions, including the provisions for accounts already classified as NPA as on February 29, 2020 as well as subsequent ageing in these accounts, shall continue to be made in the usual manner.

**Other Conditions**

9. The exclusions permitted in terms of para 2 and 3 above shall be duly reckoned by the lending institutions in their supervisory reporting as well as reporting to credit information companies (CICs); i.e., the days past due and SMA status, where applicable, as on March 1, 2020 will remain unchanged till May 31, 2020.

10. The lending institutions shall suitably disclose the following in the ‘Notes to Accounts’ while preparing their financial statements for the half year ending September 30, 2020 as well as the financial years 2019-20 and 2020-2021:

(i) Respective amounts in SMA/overdue categories, where the moratorium/deferment was extended, in terms of paragraph 2 and 3;

(ii) Respective amount where asset classification benefits is extended.

(iii) Provisions made during the Q4FY2020 and Q1FY2021 in terms of paragraph 5;

(iv) Provisions adjusted during the respective accounting periods against slippages and the residual provisions in terms of paragraph 6.

**COVID-19 – Regulatory Package**

RBI/2019-20/244 DOR.No.BP.BC.71/21.04.048/2019-20 May 23, 2020

All Commercial Banks (including Small Finance Banks, Local Area Banks and Regional Rural Banks)/All Primary (Urban) Co-operative Banks/State Co-operative Banks/ District Central Co-operative Banks/All All-India Financial Institutions /All Non-Banking Financial Companies (including Housing Finance Companies)

Please refer to the Circular DOR.No.BP.BC.47/21.04.048/2019-20 dated March 27, 2020 and Circular DOR.No.BP.BC.63/21.04.048/2019-20 dated April 17, 2020 announcing certain regulatory measures in the wake of the disruptions on account of COVID-19 pandemic and the consequent asset classification and provisioning norms. As announced in the Governor’s Statement of May 22, 2020, the intensification of COVID-19 disruptions has imparted priority to relaxing repayment pressures and improving access to working capital by mitigating the burden of debt servicing, prevent the transmission of financial stress to the real economy, and ensure the continuity of viable businesses and households. Consequently, the detailed instructions in this regard are as follows:

**(i) Rescheduling of Payments – Term Loans and Working Capital Facilities**

2. In view of the extension of lockdown and continuing disruption on account of COVID-19, all commercial banks (including regional rural banks, small finance banks and local area banks), co-operative banks, All-India Financial Institutions, and Non-banking Financial Companies (including housing finance companies) (“lending institutions”) are permitted to extend the moratorium by another three months i.e. from June 1, 2020 to August 31, 2020 on payment of all instalments in respect of term loans (including agricultural term loans, retail and crop loans). Accordingly, the repayment schedule for such loans as also the residual tenor, will be shifted across the board. Interest shall continue to accrue on the outstanding portion of the term loans during the moratorium period.

3. In respect of working capital facilities sanctioned in the form of cash credit/overdraft (“CC/OD”), lending institutions are permitted to allow a deferment of another three months, from June 1, 2020 to August 31, 2020, on recovery of interest applied in respect of all such facilities. Lending institutions are permitted, at their discretion, to convert the accumulated interest for the deferment period up to August 31, 2020, into a funded interest term loan (FITL) which shall be repayable not later than March 31, 2021.

**(ii) Easing of Working Capital Financing**

4. In respect of working capital facilities sanctioned in the form of CC/OD to borrowers facing stress on account of the economic fallout of the pandemic, lending institutions may, as a one-time measure,

(i) recalculate the ‘drawing power’ by reducing the margins till August 31, 2020. However, in all such cases where such a temporary enhancement in drawing power is considered, the margins shall be restored to the original levels by March 31, 2021; and/or,

(ii) review the working capital sanctioned limits upto March 31, 2021, based on a reassessment of the working capital cycle.

5. The above measures shall be contingent on the lending institutions satisfying themselves that the same is necessitated on account of the economic fallout from COVID-19. Further, accounts provided relief under these instructions shall be subject to subsequent supervisory review with regard to their justifiability on account of the economic fallout from COVID-19.

6. Lending institutions may, accordingly, put in place a Board approved policy to implement the above measures.

**Asset Classification**

7. The conversion of accumulated interest into FITL, as permitted in terms of paragraph 3 above, and the changes in the credit terms permitted to the borrowers to specifically tide over economic fallout from COVID-19 in terms of paragraph 4 above, will not be treated as concessions granted due to financial difficulty of the borrower, under Paragraph 2 of the Annex to the Reserve Bank of India (Prudential Framework for Resolution of Stressed Assets) Directions, 2019 dated June 7, 2019 (‘Prudential Framework’), and consequently, will not result in asset classification downgrade.

8. In respect of accounts classified as standard as on February 29, 2020, even if overdue, the moratorium period, wherever granted in respect of term loans, shall be excluded by the lending institutions from the number of days past-due for the purpose of asset classification under the IRAC norms. The asset classification for such accounts shall be determined on the basis of revised due dates and the revised repayment schedule.

9. Similarly, in respect of working capital facilities sanctioned in the form of cash credit/overdraft (“CC/OD”), where the account is classified as standard, including SMA, as on February 29, 2020, the deferment period, wherever granted in terms of paragraph 3 above shall be excluded for the determination of out of order status.

10. All other provisions of circulars dated March 27, 2020 and April 17, 2020 shall remain applicable mutatis mutandis.