**Certificate Examination on MSME**

**RBI and Gazette Notifications during the period**

**1st January 2020 to 30th June 2020**

**Interest Subvention Scheme for MSMEs**

RBI/2019-20/155 FIDD.CO.MSME.BC.No.17/06.02.031/2019-20 February 5, 2020

The Chairman / Managing Director & CEOs

All Scheduled Commercial Banks (including Regional Rural Banks)

Please refer to the operational guidelines for the captioned scheme contained in circular on ‘Interest Subvention Scheme for MSMEs’ issued vide FIDD.CO.MSME.BC.No.14/06.02.031/2018-19 dated February 21, 2019.

2. In this regard, it has been decided by the Government of India to bring, inter alia, following modifications in the operational guidelines:

1. Submission of statutory auditor certificate by June 30, 2020 and in the meantime, settle claims based on internal / concurrent auditor certificate.
2. Acceptance of claims in multiple lots for a given half year by eligible institutions.
3. Requirement of Udyog Aadhar Number (UAN) may be dispensed with for units eligible for GST. Unit not required to obtain GST, may either submit Income Tax Permanent Account Number (PAN) or their loan account must be categorized as MSME by the concerned bank.
4. Allow trading activities also without Udyog Aadhar Number (UAN)

3. Further, with the trading activity also eligible for interest subvention as indicated at (iv) above, the ‘Format of Certificate for claiming Subsidy’ i.e. Annex I of the above referred circular has been revised. Banks are advised to submit claims to SIDBI as per the revised format.

4. You are requested to apprise your branches / controlling offices about the above changes in the scheme.

**Micro, Small and Medium Enterprises (MSME) sector – Restructuring of Advances**

RBI/2019-20/160 DOR.No.BP.BC.34/21.04.048/2019-20 February 11, 2020

All banks and NBFCs regulated by the Reserve Bank of India

Please refer to the circular DBR.No.BP.BC.18/21.04.048/2018-19 dated January 1, 2019. It has been decided to extend the one-time restructuring of MSME advances permitted in terms of the aforesaid circular. Accordingly, a one-time restructuring of existing loans to MSMEs classified as 'standard' without a downgrade in the asset classification is permitted, subject to the following conditions:

1. The aggregate exposure, including non-fund based facilities, of banks and NBFCs to the borrower does not exceed ₹25 crore as on January 1, 2020.
2. The borrower’s account was in default but was a ‘standard asset’ as on January 1, 2020 and continues to be classified as a ‘standard asset’ till the date of implementation of the restructuring.
3. The restructuring of the borrower account is implemented on or before December 31, 2020.
4. The borrowing entity is GST-registered on the date of implementation of the restructuring. However, this condition will not apply to MSMEs that are exempt from GST-registration. This shall be determined on the basis of exemption limit obtaining as on January 1, 2020.

2. It is clarified that accounts which have already been restructured in terms of the circular dated January 1, 2019 shall be ineligible for restructuring under this circular.

3. All other instructions specified in the circular dated January 1, 2019 shall be applicable.

**Govt. of India**

**THE GAZETTE OF INDIA: EXTRAORDINARY [PART II—SEC. 3(ii)]**

**MINISTRY OF MICRO, SMALL AND MEDIUM ENTERPRISES**

**NOTIFICATION**

1st June, 2020

**S.O. 1702(E).—**In exercise of the powers conferred by sub-section (1) read with sub-section (9) of section 7 of the ‘Micro, Small and Medium Enterprises Development Act, 2006 (27 of 2006) and in supersession of the notification of the Government of India, Ministry of Small Scale Industries, dated the 29th September, 2006, published in the Gazette of India, Extraordinary, Part II, Section 3, Sub-section(ii), vide S.O. 1642(E), dated the 30th September 2006 except as respects things done or omitted to be done before such supersession, the Central Government, hereby notifies the following criteria for classification of micro, small and medium enterprises, namely:—

1. a micro enterprise, where the investment in Plant and Machinery or Equipment does not exceed one crore rupees and turnover does not exceed five crore rupees;
2. a small enterprise, where the investment in Plant and Machinery or Equipment does not exceed ten crore rupees and turnover does not exceed fifty crore rupees;
3. a medium enterprise, where the investment in Plant and Machinery or Equipment does not exceed fifty crore rupees and turnover does not exceed two hundred and fifty crore rupees.

This notification shall come into effect from 01.07.2020.

**Rs 3 lakh crores Collateral-free Automatic Loans for Businesses, including MSMEs**

* Businesses/MSMEs have been badly hit due to COVID19 need additional funding to meet operational liabilities built up, buy raw material and restart business
* Decision: Emergency Credit Line to Businesses/MSMEs from Banks and NBFCs up to 20% of entire outstanding credit as on 29.2.2020
  + Borrowers with up to Rs. 25 crore outstanding and Rs. 100 crore turnover eligible
  + Loans to have 4-year tenor with moratorium of 12 months on Principal repayment
  + Interest to be capped
  + 100% credit guarantee cover to Banks and NBFCs on principal and interest
  + Scheme can be availed till 31st Oct 2020
  + No guarantee fee, no fresh collateral
* 45 lakh units can resume business activity and safeguard jobs.

**Rs 20,000 crores Subordinate Debt for Stressed MSMEs**

* Stressed MSMEs need equity support
* GoI will facilitate provision of Rs. 20,000 cr as subordinate debt
* Two lakh MSMEs are likely to benefit
* Functioning MSMEs which are NPA or are stressed will be eligible
* Govt. will provide a support of Rs. 4,000 Cr. to CGTMSE
* CGTMSE will provide partial Credit Guarantee support to Banks
* Promoters of the MSME will be given debt by banks, which will then be infused by promoter as equity in the Unit.

**Rs 50,000 cr. Equity infusion for MSMEs through Fund of Funds**

* MSMEs face severe shortage of Equity.
* Fund of Funds with Corpus of Rs 10,000 crores will be set up.
* Will provide equity funding for MSMEs with growth potential and viability.
* FoF will be operated through a Mother Fund and few daughter funds
* Fund structure will help leverage Rs 50,000 cr of funds at daughter funds level
* Will help to expand MSME size as well as capacity.
* Will encourage MSMEs to get listed on main board of Stock Exchanges.

**New Definition of MSMEs**

* Low threshold in MSME definition have created a fear among MSMEs of graduating out of the benefits and hence killing the urge to grow.
* There has been a long-pending demand for revisions.

**Announcement:**

* Definition of MSMEs will be revised
* Investment limit will be revised upwards
* Additional criteria of turnover also being introduced.
* Distinction between manufacturing and service sector to be eliminated.
* Necessary amendments to law will be brought about.

**MSME Classification**

|  |  |  |  |
| --- | --- | --- | --- |
| Existing MSME Classification | | | |
| Criteria: Investment in Plant & Machinery or Equipment | | | |
| **Classification** | **Micro** | **Small** | **Medium** |
| Mfg. Enterprises | Investment<Rs. 25 lac | Investment<Rs. 5 cr. | Investment <Rs. 10 cr. |
| Services Enterprise | Investment<Rs. 10 lac | Investment< Rs. 2 cr. | Investment<Rs. 5 cr. |
|  | | | |
| Revised MSME Classification | | | |
| Composite Criteria: Investment and Annual Turnover | | | |
| **Classification** | **Micro** | **Small** | **Medium** |
| Manufacturing  & Services | Investment< Rs. 1 cr.  and  Turnover < Rs. 5 cr. | Investment< Rs. 10 cr.  and  Turnover < Rs. 50 cr. | Investment< Rs. 20 cr.  and  Turnover < Rs. 100 cr. |

**Other interventions for MSMEs**

* MSMEs currently face problems of marketing and liquidity due to COVID.
* e-market linkage for MSMEs to be promoted to act as a replacement for trade fairs and exhibitions.
* Fintech will be used to enhance transaction-based lending using the data generated by the e-marketplace.
* Government has been continuously monitoring settlement of dues to MSME vendors from Government and Central Public Sector Undertakings.
* MSME receivables from Gov and CPSEs to be released in 45 days

**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.

**COVID19 Regulatory Package – Review of Resolution Timelines under the Prudential Framework on Resolution of Stressed Assets**

RBI/2019-20/245 DOR.No.BP.BC.72/21.04.048/2019-20 May 23, 2020

All Scheduled Commercial Banks (excluding Regional Rural Banks);/ All India Financial Institutions (NABARD, NHB, EXIM Bank, and SIDBI);/ All Systemically Important Non-Deposit taking Non-Banking Financial Companies/ (NBFC-ND-SI) and Deposit taking Non-Banking Financial Companies (NBFC-D).

Please refer to the Circular DOR.No.BP.BC.62/21.04.048/2019-20 dated April 17, 2020 relating to extension of resolution timelines under the Prudential Framework on Resolution of Stressed Assets dated June 7, 2019 (‘Prudential Framework’). Given the continued challenges to resolution of stressed assets, in partial modification of the above, as announced in the Governor’s Statement of May 22, 2020, the timelines are being extended further as under:

2. In respect of accounts which were within the Review Period as on March 1, 2020, the period from March 1, 2020 to August 31, 2020 shall be excluded from the calculation of the 30-day timeline for the Review Period. In respect of all such accounts, the residual Review Period shall resume from September 1, 2020, upon expiry of which the lenders shall have the usual 180 days for resolution.

3. In respect of accounts where the Review Period was over, but the 180-day resolution period had not expired as on March 1, 2020, the timeline for resolution shall get extended by 180 days from the date on which the 180-day period was originally set to expire.

4. Consequently, the requirement of making additional provisions specified in paragraph 17 of the Prudential Framework shall be triggered as and when the extended resolution period, as stated above, expires.

5. All other provisions of the circular dated April 17, 2020 shall continue to remain applicable.

**Assignment of Risk Weights on Credit Facilities (Guaranteed Emergency Credit Line) under the Emergency Credit Line Guarantee Scheme**

RBI/2019-20/255 DoR.BP.BC.No.76/21.06.201/2019-20 June 21, 2020

All Member Lending Institutions/ (All Scheduled Commercial Banks including Scheduled RRBs)/ (NBFCs including HFCs eligible under the captioned scheme)/(All India Financial Institutions - Small Industries Development Bank of India, National Housing Bank, National Bank for Agriculture and Rural Development and Export-Import Bank of India)

Please refer to circular Ref no. 2842/NCGTC/ECLGS dated May 23, 2020 issued by National Credit Guarantee Trustee Company (NCGTC) in respect of the captioned scheme announced by the Government of India to extend guaranteed emergency credit line to MSME borrowers. As credit facilities extended under the scheme guaranteed by NCGTC are backed by an unconditional and irrevocable guarantee provided by Government of India, it has been decided that Member Lending Institutions shall assign zero percent risk weight on the credit facilities extended under this scheme to the extent of guarantee coverage.