**Certified Banking Compliance Professional**

**RBI Notifications during the period**

**1st July 2020 to 31st Dec 2020**

**Resolution Framework for COVID-19-related Stress**

RBI/2020-21/16 DOR.No.BP.BC/3/21.04.048/2020-21

August 6, 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)

The Reserve Bank of India (Prudential Framework for Resolution of Stressed Assets) Directions 2019, dated June 7, 2019 (“Prudential Framework”) provides a principle-based resolution framework for addressing borrower defaults under a normal scenario. Any resolution plan implemented under guidelines of “Prudential Framework”1 which involves granting of any concession on account of financial difficulty of the borrower entails an asset classification downgrade, except when it is accompanied by a change in ownership, which allows the asset classification to be retained as or upgraded to Standard, subject to the prescribed conditions.

2. The economic fallout on account of the Covid-19 pandemic has led to significant financial stress for borrowers across the board. The resultant stress can potentially impact the long-term viability of many firms, otherwise having a good track record under the existing promoters, due to their debt burden becoming disproportionate relative to their cash flow generation abilities. Such wide spread impact could impair the entire recovery process, posing significant financial stability risks.

3. Considering the above, with the intent to facilitate revival of real sector activities and mitigate the impact on the ultimate borrowers, it has been decided to provide a window under the Prudential Framework to enable the lenders to implement a resolution plan in respect of eligible corporate exposures without change in ownership, and personal loans, while classifying such exposures as Standard, subject to specified conditions. The details of the facility are given in the Annex.

4. The lending institutions shall ensure that the resolution under this facility is extended only to borrowers having stress on account of Covid19. Further, the lending institutions will be required to assess the viability of the resolution plan, subject to the prudential boundaries laid out in this Annex. Towards this end, each lending institution shall put in place a Board approved policy detailing the manner in which such evaluation may be done and the objective criteria that may be applied while considering the resolution plan in each case.

5. Accounts which do not fulfill the required eligibility conditions to be considered for resolution under this framework may continue to be considered for resolution under the Prudential Framework, or the relevant instructions as applicable to specific category of lending institutions where the Prudential Framework is not applicable.

6. While the Prudential Framework is otherwise not applicable to certain categories of lending institutions to which this circular is addressed, exposures of these lending institutions shall also be included for any resolution under this facility. Consequently, without prejudice to the specific conditions applicable to this facility, all the norms applicable to implementation of a resolution plan, including the mandatory requirement of Inter-Creditor Agreements (ICA) and specific implementation conditions, as laid out in the Prudential Framework shall be applicable to all lending institutions for any resolution plan implemented under this facility. Terms used in this document, to the extent not defined herein, shall have the same meaning assigned to them in the Prudential Framework.

Link for Detailed Circular:

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11941&Mode=0>

**Resolution Framework for COVID-19-related Stress – Financial Parameters**

RBI/2020-21/34 DOR.No.BP.BC/13/21.04.048/2020-21

September 7, 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 Paragraphs 23 and 24 of the Annex to the circular DOR.No.BP.BC/3/ 21.04.048/2020-21 dated August 6, 2020 (“Resolution Framework”) which envisages constitution of an Expert Committee by the Reserve Bank to make recommendations on the required financial parameters with sector specific benchmark ranges for such parameters to be factored in the resolution plans in respect of borrowers eligible under Part B of the Annex to the Resolution Framework.

2. The Reserve Bank had accordingly set up an Expert Committee with Shri K. V. Kamath as the Chairperson, as announced in the press release dated August 7, 2020. The Expert Committee has since submitted its recommendations to the Reserve Bank on September 4, 2020, which have been broadly accepted by the Reserve Bank.

3. Accordingly, all lending institutions shall mandatorily consider the following key ratios while finalizing the resolution plans in respect of eligible borrowers under Part B of the Annex to the Resolution Framework.

Link for Detailed Circular:

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11961&Mode=0>

**Basel III Capital Regulations – Treatment of debt mutual funds/ETFs**

RBI/2020-21/18 DOR.No.BP.BC/5/21.04.201/2020-21

August 6, 2020

All Scheduled Commercial Banks (Excluding Local Area Banks and Regional Rural Banks)

Please refer to our circular DBR.No.BP.BC.1/21.06.201/2015-16 dated July 1, 2015, on Basel III capital regulations.

2. In terms of para 8.4.1 of the circular, capital charge for equities is applicable to units of mutual funds. It has now been decided that the banks investing in debt mutual fund/exchange traded fund (ETF) with underlying comprising of (i) Central, State and Foreign Central Governments’ bonds (ii) Bank’s Bonds and (iii) Corporate Bonds (other than Bank Bonds) shall compute capital charge for market risk as under:

a) Investment in debt mutual fund/ETF for which full constituent debt details are available shall attract general market risk charge of 9 per cent, as hitherto. Specific risk capital charge for various kinds of exposures would be applied as detailed below:

|  |  |  |
| --- | --- | --- |
| **Sr. No.** | **Nature of debt securities/issuer** | **Table to be followed (details in**[**Annex**](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11943&Mode=0#A_1)**)** |
| a | Central, State and Foreign Central Governments’ bonds | Table 16 – Part B |
| b | Banks’ Bonds | Table 16 – Part D |
| c | Corporate Bonds (other than Bank Bonds) | Table 16 - Part E(ii) |

b) In case of debt mutual fund/ETF which contains a mix of the above debt instruments, the specific risk capital charge shall be computed based on the lowest rated debt instrument/ instrument attracting the highest specific risk capital charge in the fund.

c) Debt mutual fund/ETF for which constituent debt details are not available, at least as of each month-end, shall continue to be treated on par with equity for computation of capital charge for market risk as prescribed in para 8.4.1 of Master Circular on Basel III Capital Regulations.

Link for Detailed Circular:

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11943&Mode=0>

**Basel III Capital Regulations - Review of transitional arrangements**

RBI/2020-21/42 DOR.BP.BC.No15/21.06.201/2020-21

September 29, 2020

All Commercial Banks (Excluding Small Finance Banks, Payment Banks, RRBs and LABs)

Please refer to circular DOR.BP.BC.No.45/21.06.201/2019-20 dated March 27, 2020 on ‘Basel III Capital Regulations - Review of transitional arrangements’.

2. In view of the continuing stress on account of COVID-19, it has been decided to defer the implementation of the last tranche of 0.625 per cent of the Capital Conservation Buffer (CCB) from September 30, 2020 to April 1, 2021. Accordingly, the minimum capital conservation ratios in para 15.2.2 of Part D ‘Capital Conservation Buffer Framework’ of Master Circular, DBR.No.BP.BC.1/21.06.201/2015-16 dated July 1, 2015 on ‘Basel III Capital Regulations’, shall continue to apply till the CCB attains the level of 2.5 per cent on April 1, 2021.

3. The pre-specified trigger for loss absorption through conversion / write-down of Additional Tier 1 instruments (Perpetual Non-Convertible Preference Shares and Perpetual Debt Instruments), shall remain at 5.5 per cent of risk weighted assets (RWAs) and will rise to 6.125 per cent of RWAs from April 1, 2021.

**Basel III Framework on Liquidity Standards – Net Stable Funding Ratio (NSFR)**

RBI/2020-21/43 DOR.BP.BC.No.16/21.04.098/2020-21

September 29, 2020

All Commercial Banks (excluding Regional Rural Banks, Local Area Banks and Payments Banks)

Please refer to our circular DOR.BP.BC.No.46/21.04.098/2019-20 dated March 27, 2020 on Net Stable Funding Ratio (NSFR) guidelines.

2. In view of the continued uncertainty on account of COVID-19, on a review, it has been decided to defer the implementation of NSFR guidelines by a further period of six months. These guidelines shall now come into effect from April 1, 2021.

**Ad-hoc/Short Review/Renewal of Credit Facilities**

RBI/2020-21/27 DoS.CO.PPG.BC.1/11.01.005/2020-21

August 21, 2020

All Scheduled Commercial Banks (excluding RRBs) / All Small Finance Banks /All Urban Cooperative Banks

In terms of circular DBOD.No.BP.(SC).BC.98/21.04.103/99 dated October 7, 1999 on Risk Management System in Banks, Scheduled Commercial Banks (SCBs) are required to put in place a board approved credit policy, which, inter alia, should prescribe the periodicity and methodology of review/renewal of credit facilities. The policy should also prescribe differential time schedules for review/renewal of borrower limits so that lower rated borrowers whose financials show signs of problems are subjected to renewal control more frequently. The Master Circular for Urban Cooperative Banks (UCBs) on Management of Advances – UCBs dated July 1, 2015, requires all UCBs to lay down policy guidelines for periodic review of the working capital limits.

2. Further, in terms of the Master Circular DBR.No.BP.BC.2/21.04.048/2015-16 dated July 1, 2015 on Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances and the Master Circular DCBR.BPD. (PCB) MC No.12/09.14.000/2015-16 dated July 1, 2015 on Income Recognition, Asset Classification, Provisioning and Other Related Matters – UCBs as applicable to SCBs and UCBs respectively, an account where the regular/ad-hoc credit limits have not been reviewed/renewed within the prescribed timeline from the due date/date of ad-hoc sanction will be treated as Non-Performing Asset.

3. Banks are, therefore, expected to have a detailed Board approved policy on methodology and periodicity for review/renewal of credit facilities within the overall regulatory guidelines, and adhere to the same strictly.

4. However, an analysis of practices followed by the lenders while reviewing/renewing credit facilities has brought out certain supervisory concerns, including that of frequent/repeated ad-hoc review/renewal of credit facilities instead of regular review/renewals, non-capturing and/or inaccurate capturing of review/renewal data in the banking/information systems, and non-coverage of review/renewal activities under the concurrent audit/internal audit mechanism.

5. In this connection, we reiterate that timely and comprehensive review/renewal of credit facilities should be an integral part of the Board approved loan policy and credit risk management framework, and banks should avoid frequent and repeated ad-hoc/short review/renewal of credit facilities without justifiable reasons. Banks are also advised to capture all the data relating to regular as well as ad-hoc/short review/renewal of credit facilities in their core banking systems/management information systems and make the same available for scrutiny as and when required by any audit or inspection by Auditors/RBI. Further, the processes governing review/renewal of credit facilities should be brought under the scope of concurrent/internal audit/internal control mechanism of banks with immediate effect.

6. We advise that all banks should follow above instructions in letter and spirit.

**SLR holdings in HTM category (Amended)**

RBI/2020-21/29 DoR.No.BP.BC.9/21.04.141/2020-21

September 1, 2020

All Commercial Banks

Please refer to our circulars DBR.No.BP.BC.6/21.04.141/2015-16 dated July 1, 2015 read with DBR.No.BP.BC.65/21.04.141/2015-16 dated December 10, 2015 and DBR.No.Ret.BC.90/12.02.001/2017-18 dated October 4, 2017 on the subject.

2. Currently, banks are permitted to exceed the limit of 25 per cent of the total investments under Held to Maturity (HTM) category, provided the excess comprises only of SLR securities and total SLR securities held under HTM category is not more than 19.5 per cent of NDTL as on the last Friday of the second preceding fortnight. On a review, it has been decided to allow banks to hold under HTM category, SLR securities acquired on or after September 1, 2020 up to an overall limit of 22 per cent of NDTL, up to March 31, 2021, which shall be reviewed thereafter.

**SLR holdings in HTM category**

RBI/2020-2021/54 DoR.No.BP.BC.22/21.04.141/2020-21

October 12, 2020

All Commercial Banks

Please refer to paragraph 2 of Statement on Developmental and Regulatory Policies of the Monetary Policy Statement, 2020-21 dated October 9, 2020 and our circular DoR.No.BP.BC.9/21.04.141/2020-21 dated September 1, 2020 on the above subject.

2. Banks are permitted to exceed the limit of 25 per cent of the total investments under Held to Maturity (HTM) category provided the excess comprises only of SLR securities and total SLR securities held under HTM category is not more than 19.5 per cent of Net Demand and Time Liabilities (NDTL) as on the last Friday of the second preceding fortnight. Banks are, vide our circular dated September 1, 2020 referred to above, allowed to hold under HTM category, SLR securities acquired on or after September 1, 2020 up to an overall limit of 22 per cent of NDTL, up to March 31, 2021. It has now been decided to extend the dispensation of the enhanced HTM limit of 22 percent, for SLR securities acquired between September 1, 2020 and March 31, 2021, up to March 31, 2022, i.e. banks may continue to hold such excess SLR securities in HTM category upto March 31, 2022.

3. It has also been decided that the enhanced HTM limit shall be restored to 19.5 per cent in a phased manner, beginning from the quarter ending June 30, 2022, i.e. the excess SLR securities acquired by banks during the period September 1, 2020 to March 31, 2021 shall be progressively reduced such that the total SLR securities held in the HTM category as a percentage of the NDTL does not exceed:

1. 21.00 per cent as on June 30, 2022
2. 20.00 per cent as on September 30, 2022
3. 19.50 per cent as on December 31, 2022

4. As per extant instructions, banks may shift investments to/from HTM with the approval of the Board of Directors once a year and such shifting will normally be allowed at the beginning of the accounting year. However, in order to enable banks to shift their excess SLR securities from the HTM category to AFS/HFT to comply with the instructions as indicated in paragraph 3 above, it has been decided to allow such shifting of the excess securities during the quarter in which the HTM ceiling is brought down. This would be in addition to the shifting permitted at the beginning of the accounting year.

**Master Directions – Priority Sector Lending (PSL) – Targets and Classification**

RBI/FIDD/2020-21/72 Master Directions FIDD.CO.Plan.BC.5/04.09.01/2020-21

September 04, 2020

The Chairman / Managing Director/ Chief Executive Officer

[All Commercial Banks including Regional Rural Banks, Small Finance Banks, Local Area Banks and Primary (Urban) Co-operative Banks other than Salary Earners’ Banks]

The Priority Sector Lending (PSL) guidelines issued by Reserve Bank of India were last reviewed for Commercial Banks in April 2015 and for UCBs in May 2018 respectively. With an objective to harmonise various instructions issued to Commercial Banks, SFBs, RRBs, UCBs and LABs; align these guidelines with emerging national priorities and bring sharper focus on inclusive development, it was decided to comprehensively review the PSL guidelines. The revised guidelines also aim to encourage and support environment friendly lending policies to help achieve Sustainable Development Goals (SDGs). This review also took into account the recommendations made by the ‘Expert Committee on Micro, Small and Medium Enterprises (Chairman: Shri U.K. Sinha) and the ‘Internal Working Group to Review Agriculture Credit’ (Chairman: Shri M. K. Jain) apart from discussions with all stakeholders. Further, these Master Directions encompass the revised guidelines on PSL for all Commercial banks, RRBs, SFBs, UCBs and LABs and, accordingly, supersede the earlier Master Directions on PSL issued separately for Scheduled Commercial Banks, RRBs, SFBs and guidelines issued for UCBs, respectively.

The list of circulars consolidated in these Master Directions is indicated in the Appendix.

The Master Directions have been placed on the RBI website [www.rbi.org.in](http://www.rbi.org.in).

Link for Detailed Circular:

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11959&Mode=0>

**Long Form Audit Report (LFAR) - Review**

RBI/2020-21/33 Ref.No.DOS.CO.PPG./SEC.01/11.01.005/2020-21

September 05, 2020

The Chairman / Managing Director / Chief Executive Officer

All Scheduled Commercial Banks (Excluding RRBs) / All Local Area Banks / All Small Finance Banks and All Payment Banks

Please refer to RBI circular No. DBS.CO.PP.BC.11/11.01.005/2001-2002 dated April 17, 2002 on revision of Long Form Audit Report (LFAR).

2. Keeping in view the large scale changes in the size, complexities, business model and risks in the banking operations, a review of the LFAR formats, in consultation with the stakeholders, including the Institute of Chartered Accountants of India (ICAI), was undertaken and it has been decided to make the following changes.

3. The format of LFAR, as mentioned below, have been revised:

1. Annex I for Statutory Central Auditors (SCA)
2. Annex II for Branch Auditors
3. An Appendix as part of Annex II for the specialized branches and
4. Annex III on Large / Irregular / Critical accounts for branch auditors.

The revised formats are enclosed.

4. The revised LFAR formats are required to be put into operation for the period covering FY 2020-21 and onwards. The mandate and scope of the audit will be as per this format and if the SCA feels the need of any material additions, etc., this may be done by giving specific justification by the SCA and with the prior intimation of the bank’s Audit Committee of Board (ACB).

5. Regarding other operational issues relating to submission of LFAR, we further advise as under:

1. Timely receipt of LFARs from the auditors should be ensured;
2. The LFAR on the bank, after due examination, should be placed before the ACB / Local Advisory Board of the bank indicating the action taken/proposed to be taken for rectification of the irregularities, if any, mentioned therein; and
3. A copy each of the LFAR (i.e. for the bank / all Indian Offices of foreign bank as a whole) and the relative agenda note, together with the Board's views or directions, should be forwarded to the concerned Senior Supervisory Manager (SSM) in the Department of Supervision, Reserve Bank of India within 60 days of submission of the LFAR by the statutory auditors.

6. The LFAR format and other instructions issued vide RBI circular No. DBS.CO.PP.BC.11/11.01.005/2001-2002 dated April 17, 2002 stand repealed.

Link for Detailed Circular:

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11960&Mode=0>

**Compliance functions in banks and Role of Chief Compliance Officer (CCO)**

RBI/2020-21/35 / Ref. No. DoS.CO.PPG./SEC.02/11.01.005/2020-21

September 11, 2020

The Chairman / Managing Director & Chief Executive Officer

All Scheduled Commercial Banks (Excluding RRBs) / All Local Area Banks and

All Small Finance Banks and Payment Banks

Please refer to the guidelines on compliance functions vide our circulars DBS.CO.PP.BC.6/11.01.005/2006-07 dated April 20, 2007 and DBS.CO.PPD.10946/ 11.01.005/2014-15 dated March 04, 2015.

2. As part of robust compliance system, banks are required, inter-alia, to have an effective compliance culture, independent corporate compliance function and a strong compliance risk management programme at bank and group level. Such an independent compliance function is required to be headed by a designated Chief Compliance Officer (CCO) selected through a suitable process with an appropriate ‘fit and proper’ evaluation/selection criteria to manage compliance risk effectively.

However, it is observed that the banks follow diverse practices in this regard. The following guidelines are meant to bring uniformity in approach followed by banks, as also to align the supervisory expectations on CCOs with best practices…

Link for Detailed Circular:

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11962&Mode=0>

**Automation of Income Recognition, Asset Classification and Provisioning processes in banks**

RBI/2020-21/37 Ref. No. DoS.CO.PPG./SEC.03/11.01.005/2020-21

September 14, 2020

The Chairman / Managing Director / Chief Executive Officer

All Scheduled Commercial Banks (Excluding RRBs) and All Small Finance Banks

We invite a reference to our circular DBS.CO.PPD.No.1950/11.01.005/2011-12 dated August 04, 2011, in terms of which banks were advised, inter alia, to have appropriate IT system in place for identification of Non-Performing Assets (NPA) and generation of related data/returns, both for regulatory reporting and bank’s own MIS requirements. It is, however, observed that the processes for NPA identification, income recognition, provisioning and generation of related returns in many banks are not yet fully automated. Banks are still found to be resorting to manual identification of NPA and also over-riding the system generated asset classification by manual intervention in a routine manner.

2. In order to ensure the completeness and integrity of the automated Asset Classification (classification of advances/investments as NPA/NPI and their upgradation), Provisioning calculation and Income Recognition processes, banks are advised to put in place / upgrade their systems to conform to the following guidelines latest by June 30, 2021.

Link for Detailed Circular:

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11964&Mode=0>

**FAQs on Resolution Framework for Covid-19 related stress (Revised on December 12, 2020)**

Link for FAQ:

<https://www.rbi.org.in/scripts/FAQView.aspx?Id=137>