**CERTIFIED COMPLIANCE PROFESSIONAL**

**RBI Notifications during the period 1st July 2019 to 31st December 2019**

**RBI/2019-20/12 DBR.BP.BC.No.2/21.04.098/2019-20 July 5, 2019**

All Scheduled Commercial Banks (Excluding RRBs) & Small Finance Banks (SFBs)

**Basel III Framework on Liquidity Standards - Liquidity Coverage Ratio (LCR),
FALLCR against credit disbursed to NBFCs and HFCs**

Please refer to our [DBR.BP.BC.No.34/21.04.098/2018-19 dated April 4, 2019](https://rbi.org.in/Scripts/NotificationUser.aspx?Id=11529&Mode=0) wherein banks have been permitted to reckon, in a phased manner, an additional 2 per cent of government securities held by them under Facility to Avail Liquidity for Liquidity Coverage Ratio (FALLCR) within the mandatory SLR requirement, as Level 1 HQLA for the purpose of computing Liquidity Coverage Ratio (LCR).

2. As per the roadmap, FALLCR is scheduled to increase by 0.50 per cent of NDTL on August 1 and December 1, 2019, respectively. It has been decided that, with immediate effect, banks will be permitted to reckon this increase in FALLCR of 1.0 per cent of the bank’s NDTL as Level 1 HQLA for computing LCR, to the extent of incremental outstanding credit to NBFCs and Housing Finance Companies (HFCs) over and above the amount of credit to NBFCs/HFCs outstanding on their books as on date. The frontloading of FALLCR of one per cent, exclusively meant for incremental exposure to NBFCs/HFCs, will form part of general FALLCR as and when the increase in FALLCR takes place as per original schedule on August 1 and December 1, 2019.

3. All other instructions as per our circular ibid remain unchanged.

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**RBI/DBR/2019-20/71 Master Direction DBR.Appt.No: 9/29.67.001/2019-20 August 2, 2019**

**Master Direction - Reserve Bank of India (‘Fit and Proper’ Criteria for Elected Directors on the Boards of PSBs) Directions, 2019**

In exercise of the powers conferred by sub-section (2) of Section 19A of the State Bank of India Act, 1955 [hereinafter referred to as SBI Act]; and sub-sections (3AA) & (3AB) of Section 9 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/1980, Reserve Bank of India [hereinafter referred to as Reserve Bank] being satisfied that it is necessary and expedient in the public interest to do so, hereby notifies and specifies the authority, manner, procedure and criteria for determining the 'fit and proper' status of a person to be eligible to be elected as a director on the Board of Public Sector Banks, and issues the Directions hereinafter specified.

**CHAPTER – I
PRELIMINARY**

**1. Short Title and Commencement:**

1. These Directions shall be called the Reserve Bank of India (‘Fit and Proper’ Criteria for Elected Directors on the Boards of PSBs) Directions, 2019.
2. These Directions shall come into effect on the day these are placed on the official website of the Reserve Bank (i.e. [www.rbi.org.in](https://www.rbi.org.in/)).

**2. Applicability:**

These Directions shall be applicable to Public Sector Banks.

**3. Definitions:**

(a) In these Directions, unless the context otherwise requires, the terms herein shall bear the meanings assigned to them below -

1. “Board of Directors” or “Board”, in relation to a bank, means the collective body of the directors of the bank.
2. “Chairperson” means the Chairman/Part-time Chairman of the Board of Directors of a bank.
3. “Corresponding new bank” shall be as defined in the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/1980.
4. “Director” means a director appointed to the Board of a bank.
5. “Elected/Shareholder Director” means a director referred to in section 19(c) of the SBI Act, and clause (i) of sub-section (3) of section 9 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/1980.
6. “Government of India Nominee Director” means a director referred to in Section 19(e) of the SBI Act and Section 9(3)(b) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/1980.
7. “Independent Director” shall be as defined in the Companies Act, 2013.
8. “Nationalised bank” means a corresponding new bank constituted under sub-section (1) of section 3 of the Banking Companies (Acquisition and Transfer of Undertakings) Acts, 1970/1980.
9. “Non-official director” means director referred to in Section 9(3)(g), (h) & (i) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/1980, and Section 19(c) & (d) of SBI Act.
10. Non-Operative Financial Holding Company (NOFHC) means a non-deposit taking NBFC which holds the shares of a banking company and the shares of all other financial services companies in its group, whether regulated by Reserve Bank or by any other financial regulator, to the extent permissible under the applicable regulatory prescriptions.
11. “Public Sector Banks” means State Bank of India and nationalised banks.
12. “State Bank of India” means the State Bank of India constituted under Section 3 of the SBI Act, 1955.

(b) All other expressions unless defined herein shall have the same meaning as have been assigned to them under the Banking Regulation Act or the SBI Act or the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/1980 or Companies Act, 2013 or any statutory modification or re-enactment thereto or SEBI Guidelines or as defined elsewhere by the Reserve Bank or used in commercial parlance, as the case may be.

**CHAPTER – II
APPOINTMENT OF ELECTED DIRECTORS**

**4. ‘Fit and Proper’ Criteria for Elected Directors on the Boards of State Bank of India and Nationalised Banks:**

**Authority**

4.1 All the banks are required to constitute a Nomination and Remuneration Committee [hereinafter referred to as the Committee] consisting of a minimum of three non-executive directors from amongst the Board of Directors [hereinafter referred to as Board], out of which not less than one-half shall be independent directors and should include at least one member from Risk Management Committee of the Board, for undertaking a process of due diligence to determine the 'fit and proper' status of the persons to be elected as directors under sub-section (c) of Section 19 of the SBI Act/clause (i) of sub-section (3) of Section 9 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/1980. The Government of India nominee director and the director nominated under section 19(f) of the SBI Act/section 9(3)(c) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/1980 shall not be part of the Committee. The non-executive Chairperson of the bank may be appointed as a member of the Committee but shall not chair such Committee. The Board should also nominate one among them as Chairman of the Committee. The quorum required is three, including the Chairman. In case the absence of any nominated member results in want of quorum, the Board may nominate any other non-executive director in his place for the meeting. At the time of constituting the Committee, the Board can decide on its tenure.

**Manner and procedure**

4.2 The banks shall obtain necessary information, and a declaration & undertaking, in the format annexed ([Annex 1](https://rbidocs.rbi.org.in/rdocs/Content/PDFs/71MDPSBS02082019_A1.pdf)), from the persons who file their nominations for election. The Committee shall meet after the last date prescribed for acceptance of nominations and determine whether or not the person's candidature should be accepted, based on the criteria mentioned below. The Committee's discussions shall be properly recorded as formal minutes of the meeting and the voting, if done, shall also be noted. Based on the information provided in the signed declaration, the Committee shall decide on the acceptance or otherwise of the candidature and shall make references, where considered necessary, to the appropriate authority / persons, to ensure that the candidate conforms to the requirements indicated.

**Criteria**

4.3 The Committee shall determine the 'fit and proper' status of the proposed candidates based on the broad criteria mentioned hereunder:

**(i) Age –**The candidate’s age should be between 35 to 67 years as on the cut-off date fixed for submission of nominations for election.

**(ii) Educational qualification –** The candidate should at least be a graduate.

**(iii) Experience and field of expertise –** The candidate shall have special knowledge or practical experience in respect of one or more of the matters enumerated in section 19A(a) of the SBI Act / section 9(3A)(A) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/1980, as the case may be, read with [RBI Circular DBR.Appt.BC No 39/29.39.001/2016-17 dated November 24, 2016](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10736&Mode=0)*.*

**(iv) Disqualifications:** In addition to ‘Disqualifications of Directors’ as prescribed in Section 22 of the SBI Act, 1955 / Clause 10 of Nationalised Banks (Management and Miscellaneous Provisions) Scheme, 1970/80:

1. The candidate should not be a member of the Board of any bank or the Reserve Bank or a Financial Institution (FI) or an Insurance Company or a NOFHC holding any other bank.

*Explanation*: For the purpose of this sub-para and sub-para (c), the expression “bank” shall include a banking company, a corresponding new bank, State Bank of India, a co-operative bank and a regional rural bank.
2. A person connected with hire purchase, financing, money lending, investment, leasing and other para banking activities shall not be considered for appointment as elected director on the board of a PSB. However, investors of such entities would not be disqualified for appointment as directors if they do not enjoy any managerial control in them.
3. No person may be elected/ re-elected on the Board of a bank if he/she has served as director in the past on the board of any bank[1](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11649&Mode=0#F1)/FI/RBI/Insurance Company under any category for six years, whether continuously or intermittently.
4. The candidate should not be engaging in the business of stock broking.
5. The candidate should not be holding the position of a Member of Parliament or State Legislature or Municipal Corporation or Municipality or other local bodies[2](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11649&Mode=0#F2).
6. The candidate should not be acting as a partner of a Chartered Accountant firm which is currently engaged as a Statutory Central Auditor of any nationalised bank or State Bank of India.
7. The candidate should not be acting as a partner of a Chartered Accountant firm which is currently engaged as Statutory Branch Auditor or Concurrent Auditor of the bank in which nomination for election is filed.

**(v) Tenure –** An elected director shall hold office for three years and shall be eligible for re-election: Provided that no such director shall hold office for a period exceeding six years[3](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11649&Mode=0#F3), whether served continuously or intermittently.

**(vi) Professional Restrictions –**

(a) The candidate should neither have any business connection (including legal services, advisory services etc.) with the concerned bank nor should be engaged in activities which might result in a conflict of business interests with that bank.

(b) The candidate should not be having any professional relationship with a bank or any NOFHC holding any other bank.

Provided that a candidate having any such relationship with a bank at the time of filing nomination for election shall be deemed to be meeting the requirement under item (b), the candidate shall submit a declaration to the Committee that such relationship with the bank shall be severed if he is elected as a director, and upon being elected, severs such relationship before appointment as a director of the bank.

**(vii) Track record and integrity -** The candidate should not be under adverse notice of any regulatory or supervisory authority/agency, or law enforcement agency and should not be a defaulter of any lending institution.

**5. The banks shall obtain from the elected director:**

(a) a Deed of Covenant executed in the format annexed ([Annex 2](https://rbidocs.rbi.org.in/rdocs/Content/PDFs/71MDPSBS02082019_A2.pdf)), before such person assumes office of director;

(b) a simple declaration every year as on 31st March to the effect that the information already provided by such person has not undergone any change.

(c) Where the elected director informs that there is change in the information provided earlier, the bank shall obtain from such director a fresh [Annex 1](https://rbidocs.rbi.org.in/rdocs/Content/PDFs/71MDPSBS02082019_A1.pdf) incorporating the changes.

**6. The banks shall also -**

Ensure compliance to Section 20 of the Banking Regulation Act, 1949. In addition,

(a) Put in place a system of safeguards, including proper disclosure of the elected CA director’s/his firm’s clients, and not participating in bank’s credit/investment decisions involving his/firm’s clients. The elected CA director should be required to compulsorily dissociate himself from the entire process and sign a covenant to this effect.

(b) Require the elected director to make a full and proper disclosure of his interests and directorships in business entities, with the director personally distancing himself from and not participating in the bank’s credit/investment decisions involving entities in which he is interested.

(c) Not allot any professional work to a person who was an elected director of that bank, for a period of two years after demitting office as such director.

**7. Where the elected director:**

(a) fails to

(i) submit the Deed of Covenant or declaration; or

(ii) make proper disclosures; or

(iii) refrain from participating in credit/investment decisions, where he is interested; or

(b) makes incomplete or incorrect disclosures, or

(c) involves in such activities that render him/her ‘not fit and proper’ as per the criteria mentioned above,

such director shall be deemed to be not fulfilling the requirements of sub-section (2) of section 19A of the SBI Act / sub-section (3AA) of section 9 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/1980 and shall be liable for the consequences thereof.

8. The Committee shall adopt the revised criteria stated above while scrutinizing the nomination of candidates seeking election as new directors (appointment/re-appointment). However, existing elected directors may be allowed to complete their current terms as per the pre-revised criteria.

**CHAPTER – III
INTERPRETATIONS AND REPEAL**

**9. Interpretations:**

For the purpose of giving effect to the provisions of these Directions, the Reserve Bank may, if it considers necessary, issue necessary clarifications in respect of any matter covered herein and the interpretation of any provision of these Directions given by the Reserve Bank shall be final and binding on all the parties concerned.

**10. Repeal:**

With the issue of these Directions, the instructions/guidelines contained in the following circulars issued by the Reserve Bank stand repealed.

1. [DBOD. No. BC.No.47/29.39.001/2007-08 dated November 1, 2007](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=3916&Mode=0) on ‘Fit and proper’ criteria for elected directors on the boards of nationalised banks.
2. [DBOD. No. BC.No. 50/29.39.001/2007-08 dated November 14, 2007](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=3935&Mode=0) on ‘Fit and proper’ criteria for elected directors on the boards of Associate Banks of SBI.
3. DBOD. No. BC.No. 54/29.39.001/2011-12 dated November 21, 2011 on ‘Fit and proper’ criteria for elected directors on the board of SBI.
4. DBOD. No. BC.No. 56/29.39.001/2011-12 dated November 21, 2011 on ‘Fit and proper’ criteria for elected directors on the board of IDBI Bank Limited.

1 It includes the bank in which he/she has served as director in the past.

2 Other local bodies means bodies such as Notified Area Council, City Council, Panchayat, Gram Sabha, Zila Parishad, etc.

3 Clause 9(4) of Nationalised Banks (Management and Miscellaneous Provisions) Scheme, 1970/80, and Section 20(3) of the SBI Act

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**RBI/2019-20/89 DOR.Appt.BC.No.23/29.67.001/2019-20 November 4, 2019**

All Private Sector Banks (including Local Area Banks, Small Finance
Banks, Payments Banks) and Foreign Banks operating in India

**Guidelines on Compensation of Whole Time Directors/ Chief Executive Officers/ Material Risk Takers and Control Function staff**

The compensation practices, especially of large financial institutions, were one of the important factors which contributed to the global financial crisis in 2008. Employees were often rewarded for increasing short-term profit without adequate recognition of the risks and long-term consequences that their activities posed to the organisations. These perverse incentives amplified excessive risk taking that severely threatened the global financial system. The compensation issue has, therefore, been at the centre stage of regulatory reforms.

2. In the wake of financial crisis, in order to address the issues in a coordinated manner across jurisdictions, the Financial Stability Forum (later the Financial Stability Board i.e. FSB) brought out a set of Principles (FSF Principles for Sound Compensation Practices, dated April 02, 2009) and Implementation Standards (FSB Principles for Sound Compensation Practices - Implementation Standards, dated September 25, 2009) on sound compensation practices. The Principles are intended to reduce incentives towards excessive risk taking that may arise from the structure of compensation schemes. The Principles call for effective governance of compensation, alignment of compensation with prudent risk taking, effective supervisory oversight and stakeholder engagement. The Principles have been endorsed by the G-20 countries and the Basel Committee on Banking Supervision (BCBS). The Implementation Standards are specific norms, prioritizing the areas that should be addressed by firms and supervisors to achieve effective global implementation of the Principles.

3. The BCBS published in May 2011 the final report on ‘Range of Methodologies for Risk and Performance Alignment of Remuneration’. The main objectives of the report are (a) to present certain remuneration practices and methodologies that support sound incentives; and (b) the elements influencing the effectiveness of risk alignment that should be considered by banks when developing their methodologies as well as by supervisors, when reviewing and assessing banks’ practices. In July 2011, the BCBS in consultation with the FSB has also published Pillar 3 disclosure requirements for remuneration.

4. Taking into account the stipulations in these documents, Reserve Bank had issued the Guidelines on compensation vide Circular [DBOD No.BC.72/29.67.001/2011-12 dated January 13, 2012](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=6938&Mode=0), applicable to Whole Time Directors / Chief Executive Officers / Risk Takers and Control Function Staff, etc. for implementation by private sector and foreign banks from the financial year 2012-13.

5. These Guidelines have since been reviewed based on experience gained and evolving international best practices. The objective has also been to better align these Guidelines with FSB Principles and Implementation Standards for Sound Compensation Practices and the Supplementary Guidance issued by FSB in March 2018 on the use of compensation tools to address misconduct risk. Consequently, a Discussion Paper on the proposed Guidelines was published on the RBI website and comments were invited from banks and other interested parties by March 31, 2019.

6. The final Guidelines, taking into consideration the responses received, are given in the [Annex](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11720&Mode=0#AN1).

7. These Guidelines will be applicable for pay cycles beginning from/after April 01, 2020. All applications for approval of appointment/re-appointment or approval of remuneration/revision in remuneration of Whole Time Directors (WTDs)/ Chief Executive Officers (CEOs) shall be submitted with full details as prescribed in [Appendix 1](https://rbidocs.rbi.org.in/rdocs/content/pdfs/89GCWI041119_A1.pdf).

8. Private sector banks, foreign banks operating under the Wholly Owned Subsidiary mode (WOS), and foreign banks operating in India under the branch mode are required to obtain regulatory approval for grant of remuneration (i.e. compensation) to WTDs/ CEOs in terms of Section 35B of the Banking Regulation Act, 1949 (B.R. Act, 1949). The approval process will involve, inter alia, an assessment of whether the bank’s compensation policies and practices are in accordance with the Guidelines set out in the [Annex](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11720&Mode=0#AN1), and the BCBS Methodologies detailed in [Appendix 2](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11720&Mode=0#AP2).

9. In view of above, the instructions issued vide the circular [DBOD No.BC.72/29.67.001/2011-12 dated January 13, 2012](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=6938&Mode=0) stand superseded with effect from April 01, 2020.

<https://rbidocs.rbi.org.in/rdocs/notification/PDFs/NOTI898C120D41D0E3465B8552E5467EDD7A56.PDF>

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**RBI/2019-20/60 DBR.No.BP.BC.18/21.01.003/2019-20 September 12, 2019**

All Scheduled Commercial Banks (Excluding Regional Rural Banks)

**Large Exposures Framework**

Please refer to paragraph 7 (a) of the [Statement on Developmental and Regulatory Policies dated August 7, 2019](https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=47819) on ‘Harmonisation of single counterparty exposure limit for banks’ exposures to a single NBFC with general single counterparty exposure limit’ ([extract enclosed](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11685&Mode=0#AN1)).

2. In terms of circular [DBR.No.BP.BC.43/21.01.003/2018-19 dated June 03, 2019](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11573&Mode=0) on “Large Exposures Framework (LEF)”, banks’ exposures to a single NBFC is restricted to 15 percent of their available eligible capital base, while general single counterparty exposure limit is 20 percent, which can be extended to 25 percent by banks’ Boards under exceptional circumstances.

3. It has been decided that a bank’s exposure to a single NBFC (excluding gold loan companies) will be restricted to 20 percent of that bank’s eligible capital base. Bank finance to NBFCs predominantly engaged in lending against gold will continue to be governed by limits prescribed in circular [DBOD.BP.BC.No.106/21.04.172/2011-12 dated May 18, 2012](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=7222&Mode=0).

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RBI/2019-20/59 DBR.No.BP.BC.17/21.06.001/2019-20 September 12, 2019

All Scheduled Commercial Banks/ All Local Area Banks/ All Small Finance Banks /All Regional Rural Banks

**Risk Weight for Consumer Credit except credit card receivables**

Please refer to paragraph 6 of the [Statement on Developmental and Regulatory Policies dated August 7, 2019](https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=47819) on ‘Reduction in risk weight for consumer credit except credit card receivables’ ([extract enclosed](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11684&Mode=0#AN1)).

2. As per extant instructions, consumer credit, including personal loans and credit card receivables but excluding educational loans, attracts a higher risk weight of 125 per cent or higher, if warranted by the external rating of the counterparty.

3. On a review, it has been decided to reduce the risk weight for consumer credit, including personal loans, but excluding credit card receivables, to 100%. Other stipulations remain the same.

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