**Accounting & Finance for Bankers**

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| **Sr. No.** | **RBI Notifications** |
| 1 | Risk Based Internal Audit (RBIA) |
| 2 | Utilisation of Floating Provisions/Counter Cyclical Provisioning Buffer |
| 3 | Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs) |
| 4 | Master Direction on Levy of Penal Interest for Delayed Reporting / Wrong Reporting / Non-Reporting of Currency Chest Transactions and Inclusion of Ineligible Amounts in Currency Chest Balances |
| 5 | Master Direction on “Currency Distribution & Exchange Scheme (CDES)” for bank branches including currency chests based on performance in rendering customer service to members of public |
| 6 | Master Circular – Scheme of Penalties for bank branches including Currency Chests based on performance in rendering customer service to the members of public |
| 7 | Master Circular – Detection and Impounding of Counterfeit Notes |
| 8 | Master Circular – Facility for Exchange of Notes and Coins |
| 9 | Risk-Based Internal Audit (RBIA) |
| 10 | Risk Based Internal Audit (RBIA) Framework – Strengthening Governance arrangements |

**1. Risk Based Internal Audit (RBIA) Framework – Strengthening Governance arrangements**

**RBI/2020-21/83 Ref.No.DoS.CO.PPG./SEC.04/11.01.005/2020-21 January 07, 2021**

*The Chairman / Managing Director / Chief Executive Officer, All Scheduled Commercial Banks (Excluding RRBs), All Local Area Banks, All Small Finance Banks and All Payments Banks*

In terms of the Guidance Note on Risk-Based Internal Audit issued by RBI vide [circular DBS.CO.PP.BC.10/11.01.005/2002-03 dated December 27, 2002](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=1020&Mode=0), banks, inter alia, are required to put in place a risk based internal audit (RBIA) system as part of their internal control framework that relies on a well-defined policy for internal audit, functional independence with sufficient standing and authority within the bank, effective channels of communication, adequate audit resources with sufficient professional competence, among others.

2. While the aforesaid Guidance Note lays out the basic approach for risk based internal audit functions, banks are expected to re-orient their approach, in line with the evolving best practices, as a part of their overall Governance and Internal Control framework. Banks are encouraged to adopt the International Internal Audit standards, like those issued by the Basel Committee on Banking Supervision (BCBS) and the Institute of Internal Auditors (IIA).

3. To bring uniformity in approach followed by the banks, as also to align the expectations on Internal Audit Function with the best practices, banks are advised as under:

1. Authority, Stature and Independence - The internal audit function must have sufficient authority, stature, independence and resources within the bank, thereby enabling internal auditors to carry out their assignments with objectivity. Accordingly, the Head of Internal Audit (HIA) shall be a senior executive of the bank who shall have the ability to exercise independent judgement. The HIA as well as the internal audit function shall have the authority to communicate with any staff member and have access to all records or files that are necessary to carry out the entrusted responsibilities.
2. Competence - Requisite professional competence, knowledge and experience of each internal auditor is essential for the effectiveness of the bank's internal audit function. The desired areas of knowledge and experience may include banking operations, accounting, information technology, data analytics and forensic investigation, among others. Banks should ensure that internal audit function has the requisite skills to audit all areas of the bank.
3. Staff Rotation - Except for the entities where the internal audit function is a specialised function and managed by career internal auditors, the Board should prescribe a minimum period of service for staff in the Internal Audit function. The Board may also examine the feasibility of prescribing at least one stint of service in the internal audit function for those staff possessing specialized knowledge useful for the audit function, but who are posted in other departments, so as to have adequate skills for the staff in the Internal Audit function.
4. Tenor for appointment of Head of Internal Audit - Except for the entities where the internal audit function is a specialised function and managed by career internal auditors, the HIA shall be appointed for a reasonably long period, preferably for a minimum of three years.
5. Reporting Line - The HIA shall directly report to either the Audit Committee of the Board (ACB) / MD & CEO or Whole Time Director (WTD). Should the Board of Directors decide to allow the MD & CEO or a WTD to be the ‘reporting authority’ of the HIA, then the ‘reviewing authority’ shall be with the ACB and the ‘accepting authority’ shall be with the Board in matters of performance appraisal of the HIA. Further, in such cases, the ACB shall meet the HIA at least once in a quarter, without the presence of the senior management, including the MD & CEO/WTD. The HIA shall not have any reporting relationship with the business verticals of the bank and shall not be given any business targets. In foreign banks operating in India as branches, the HIA shall report to the internal audit function in the controlling office / head office.
6. Remuneration - The independence and objectivity of the internal audit function could be undermined if the remuneration of internal audit staff is linked to the financial performance of the business lines for which they exercise audit responsibilities. Thus, the remuneration policies should be structured in a way that it avoids creating conflict of interest and compromising audit’s independence and objectivity.

4. The internal audit function shall not be outsourced. However, where required, experts, including former employees, could be hired on contractual basis subject to the ACB being assured that such expertise does not exist within the audit function of the bank. Any conflict of interest in such matters shall be recognised and effectively addressed. Ownership of audit reports in all cases shall rest with regular functionaries of the internal audit function.

5. Banks must ensure and demonstrate through proper documentation that their risk-based internal audit framework captures all the significant criteria / principles suited for their organisational structure, the business model and the risks.

6. The instructions contained in this circular shall come into effect immediately from the date of this circular.

7. This circular supplement the guidelines issued by Reserve Bank of India on [December 27, 2002](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=1020&Mode=0) on Risk-based internal audit along with other circulars/instruction on the subject issued from time-to time and for any common areas of guidance, the prescription of this circular shall be followed.

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12011&Mode=0>

**2. Utilisation of Floating Provisions/Counter Cyclical Provisioning Buffer**

**RBI/2021-22/28 DOR.STR.REC.10/21.04.048/2021-22 May 5, 2021**

*All Scheduled Commercial Banks, (Excluding Regional Rural Banks and Payments Banks)*

Please refer to our [circular DBOD.No.BP.BC.89/21.04.048/2005-06 dated June 22, 2006](https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=2918&Mode=0) and [DBOD.No.BP.BC.68/21.04.048/2006-07 dated March 13, 2007](https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=3334&Mode=0) on creation, accounting, disclosures and utilisation of floating provisions by banks. Banks may also refer to our [circular DBOD.No.BP.BC.87/21.04.048/2010-11 dated April 21, 2011](https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=6357&Mode=0) on creation and utilisation of ‘countercyclical provisioning buffer’, wherein we had advised that the buffer will be allowed to be used by banks for making specific provisions for non-performing assets, inter alia, during periods of system wide downturn, with the prior approval of RBI.

2. Accordingly, in terms of our circulars [DBOD.No.BP.95/21.04.048/2013-14 dated February 7, 2014](https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=8737&Mode=0) and [DBR.No.BP.BC.79/21.04.048/2014-15 dated March 30, 2015](https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=9624&Mode=0), banks were allowed to utilise upto 33 per cent and 50 per cent of floating provisions/ countercyclical provisioning buffer held by them as on March 31, 2013 and December 31, 2014 respectively, for making specific provisions for non-performing assets, as per their Board approved policy.

3. In order to mitigate the adverse impact of COVID 19 related stress on banks, as a measure to enable capital conservation, it has been decided to allow banks to utilise 100 per cent of floating provisions/ countercyclical provisioning buffer held by them as on December 31, 2020 for making specific provisions for non-performing assets with prior approval of their Boards. Such utilisation is permitted with immediate effect and upto March 31, 2022.

**3. Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs)**

**RBI/2021-22/25 Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 April 27, 2021**

*The Chairman/Managing Director/Chief Executive Officer, All Commercial Banks (Excluding RRBs), All Primary (Urban) Co-operative Banks (UCBs), All Non-Banking Finance Companies (NBFCs) (Including Housing Finance Companies)*

The following guidelines are issued under Section 30(1A) of the Banking Regulation Act, 1949, Section 10(1) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/1980 and Section 41(1) of SBI Act, 1955; and under provisions of Chapter IIIB of RBI Act, 1934 for NBFCs. These guidelines supersede all previous guidelines (list enclosed at [Table 1](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12079&Mode=0#T1)) issued on the subject.

**2. Applicability:**

2.1 These guidelines will be applicable to the **Commercial Banks (excluding RRBs), UCBs and NBFCs including HFCs (hereinafter referred to as the Entities)** for Financial Year 2021-22 and onwards in respect of appointment/reappointment of SCAs/SAs[1](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12079&Mode=0#FT1) of the Entities. However, non-deposit taking NBFCs with asset size[2](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12079&Mode=0#FT2) below ₹1,000 crore have the option to continue with their extant procedure.

2.2 As RBI guidelines regarding appointment of SCAs/SAs shall be implemented for the first time for UCBs and NBFCs from FY 2021-22, they shall have the flexibility to adopt these guidelines from H2 (second half) of FY 2021-22 in order to ensure that there is no disruption.

**3. Prior Approval of RBI:**

3.1 Commercial Banks (excluding RRBs) and UCBs will be required to take prior approval of RBI (Department of Supervision) for appointment/reappointment of SCAs/SAs, on an annual basis in terms of the above-mentioned statutory provisions. For the purpose, they should apply to Department of Supervision, RBI before 31st July of the reference year and the Public Sector Banks (PSBs) shall approach RBI within one month of receipt of list of eligible audit firms from RBI.

3.2 For the purpose, all Commercial Banks (excluding RRBs) in India and UCBs under Mumbai Region shall approach the Central Office of RBI (Department of Supervision). Other UCBs shall approach the concerned Regional Office of RBI (Department of Supervision), under whose jurisdiction their Head Office is located.

3.3 While NBFCs do not have to take prior approval of RBI for appointment of SCAs/SAs, all NBFCs need to inform RBI (to the same office as applicable to UCBs, as stated in Para 3.2 above) about the appointment of SCAs/SAs for each year by way of a certificate in [Form A](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12079&Mode=0#FA) within one month of such appointment.

**4. Number of SCAs / SAs and Branch Coverage**

4.1 For Entities with asset size of ₹15,000 crore and above as at the end of previous year, the statutory audit should be conducted under joint audit of a minimum of two audit firms [Partnership firms/Limited Liability Partnerships (LLPs)]. All other Entities should appoint a minimum of one audit firm (Partnership firm/LLPs) for conducting statutory audit. It shall be ensured that joint auditors of the Entity do not have any common partners and they are not under the same network[3](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12079&Mode=0#FT3) of audit firms. Further, the Entity may finalise the work allocation among SCAs/SAs, before the commencement of the statutory audit, in consultation with their SCAs/SAs.

4.2 The Entities should decide on the number of SCAs/SAs based on a Board/Local Management Committee (LMC) Approved Policy, inter alia, taking into account the relevant factors such as the size and spread of assets, accounting and administrative units, complexity of transactions, level of computerization, availability of other independent audit inputs, identified risks in financial reporting, etc.

Considering the above factors and the requirements of the Entity, the actual number of SCAs/SAs to be appointed shall be decided by the respective Boards/LMC, subject to the following limits:

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| --- | --- | --- |
| **Sl. No.** | **Asset Size of the Entity** | **Maximum number of SCAs/SAs** |
| 1. | Upto ₹5,00,000 crore | 4 |
| 2. | Above ₹ 5,00,000 crore and Upto ₹ 10,00,000 crore | 6 |
| 3. | Above ₹ 10,00,000 crore and Upto ₹ 20,00,000 crore | 8 |
| 4. | Above ₹ 20,00,000 crore | 12 |

The above limits have been prescribed to ensure that the number of SCAs/SAs appointed by the Entities are adequate, commensurate with the asset size and extent of operations of the Entities, with a view to ensure that audits are conducted in a timely and effective manner. This will be subject to review in future based on the experience.

4.3 In terms of RBI guidelines on ‘Norms on eligibility, empanelment and selection of Statutory Branch Auditors in Public Sector Banks (PSBs)’, PSBs shall allot the Top 20 branches (to be selected strictly in order of the level of outstanding advances) to SCAs in such a manner as to cover a minimum of 15% of total gross advances of the bank by SCAs. For other Entities (excluding Payment Banks and Core Investment Companies), SCAs/SAs shall visit and audit at least the Top 20 branches/Top 20% of the branches of the Entities (in case of Entities having less than 100 branches), to be selected in order of the level of outstanding advances, in such a manner as to cover a minimum of 15% of total gross advances of the Entities. In addition, the banking companies and NBFCs shall ensure adherence to the provisions of Section 143 (8) of the Companies Act, 2013 regarding audit of accounts of all branches.

**5. Eligibility Criteria of Auditors**

Each Entity is required to appoint audit firm(s) as its SCA(s)/SA(s) fulfilling the eligibility norms as prescribed in [Annex I](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12079&Mode=0#AN1).

**6. Independence of Auditors**

6.1 For Commercial Banks (excluding RRBs) and NBFCs[4](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12079&Mode=0#FT4), the Audit Committee of the Board (ACB)/ LMC shall monitor and assess the independence of the auditors and conflict of interest position in terms of relevant regulatory provisions, standards and best practices. Any concerns in this regard may be flagged by the ACB/LMC to the Board of Directors of the Commercial Bank (excluding RRBs)/NBFC and concerned Senior Supervisory Manager (SSM)/Regional Office (RO) of RBI.

For UCBs/remaining NBFCs, the Board of Directors shall monitor and assess the independence of the auditors. Any concerns in this regard may be flagged by the Board of the UCB/NBFC to the concerned SSM/RO of RBI.

6.2 In case of any concern with the Management of the Entities such as non-availability of information/non-cooperation by the Management, which may hamper the audit process, the SCAs/SAs shall approach the Board[5](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12079&Mode=0#FT5)/ACB/LMC of the Entity, under intimation to the concerned SSM/RO of RBI.

6.3 Concurrent auditors of the Entity should not be considered for appointment as SCAs/SAs of the same Entity. The audit of the Entity and any entity with large exposure[6](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12079&Mode=0#FT6) to the Entity for the same reference year should also be explicitly factored in while assessing independence of the auditor.

6.4 The time gap between any non-audit works (services mentioned at Section 144 of Companies Act, 2013, Internal assignments, special assignments, etc.) by the SCAs/SAs for the Entities or any audit/non-audit works for its group entities should be at least one year, before or after its appointment as SCAs/SAs. However, during the tenure as SCA/SA, an audit firm may provide such services to the concerned Entities which may not normally result in a conflict of interest[7](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12079&Mode=0#FT7), and Entities may take their own decision in this regard, in consultation with the Board/ACB/LMC.

6.5 The restrictions as detailed in para 6.3 and 6.4 above, should also apply to an audit firm under the same network[8](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12079&Mode=0#FT8) of audit firms or any other audit firm having common partners.

**7. Professional Standards of SCAs/SAs**

7.1 The SCAs/SAs shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.

7.2 The Board[9](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12079&Mode=0#FT9)/ACB/LMC of Entities shall review the performance of SCAs/SAs on an annual basis. Any serious lapses/negligence in audit responsibilities or conduct issues on part of the SCAs/SAs or any other matter considered as relevant shall be reported[10](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12079&Mode=0#FT10) to RBI within two months from completion of the annual audit. Such reports should be sent with the approval/recommendation of the Board/ACB/LMC, with the full details of the audit firm.

7.3 In the event of lapses in carrying out audit assignments resulting in misstatement of an Entity’s financial statements, and any violations/lapses vis-à-vis the RBI’s directions/guidelines regarding the role and responsibilities of the SCAs/SAs in relation to Entities, the SCAs/SAs would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

**8. Tenure and Rotation**

8.1. In order to protect the independence of the auditors/audit firms, Entities will have to appoint the SCAs/SAs for a continuous period of three years[11](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12079&Mode=0#FT11), subject to the firms satisfying the eligibility norms each year. Further, Commercial Banks (excluding RRBs) and UCBs can remove the audit firms during the above period only with the prior approval of the concerned office of RBI (Department of Supervision), as applicable for prior approval for appointment, as mentioned at Para 3.2 of this circular. NBFCs removing the SCAs/SAs before completion of three years tenure shall inform concerned SSM/RO at RBI about it, along with reasons/justification for the same, within a month of such a decision being taken.

8.2 An audit firm would not be eligible for reappointment in the same Entity for six years (two tenures) after completion of full or part of one term of the audit tenure[12](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12079&Mode=0#FT12). However, audit firms can continue to undertake statutory audit of other Entities.

8.3. One audit firm can concurrently take up statutory audit of a maximum of four Commercial Banks [including not more than one PSB or one All India Financial Institution (NABARD, SIDBI, NHB, EXIM Bank) or RBI], eight UCBs and eight NBFCs during a particular year, subject to compliance with required eligibility criteria and other conditions for each Entity and within overall ceiling prescribed by any other statutes or rules. For clarity, the limits prescribed for UCBs exclude audit of other co-operative societies by the same audit firm. For the purpose of this circular, a group of audit firms having common partners and/or under the same network, will be considered as one entity and they will be considered for allotment of SCA/SA accordingly. Shared/Sub-contracted audit by any other/associate audit firm under the same network of audit firms is not permissible. The incoming audit firm shall not be eligible if such audit firm is associated with the outgoing auditor or audit firm under the same network of audit firms.

**9. Audit Fees and Expenses**

9.1 The audit fees for SCAs/SAs of all the Entities shall be decided in terms of the relevant statutory/regulatory provisions. Public Sector Banks will continue to be guided by relevant RBI instructions in the matter.

9.2 The audit fees for SCAs/SAs of all the Entities shall be reasonable and commensurate with the scope and coverage of audit, size and spread of assets, accounting and administrative units, complexity of transactions, level of computerization, identified risks in financial reporting, etc.

9.3 The Board/ACB/LMC of Entities shall make recommendation to the competent authority as per the relevant statutory/regulatory instructions for fixing audit fees of SCAs/SAs.

**10. Statutory Audit Policy and Appointment Procedure**

10.1 Each Entity shall formulate a Board/LMC Approved Policy to be hosted on its official website/public domain and formulate necessary procedure thereunder to be followed for appointment of SCAs/SAs. Apart from conforming to all relevant statutory/regulatory requirements in addition to these instructions, this should afford necessary transparency and objectivity for most key aspects of this important assurance function.

10.2 Guidelines on minimum procedural requirements are given at [Annex II](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12079&Mode=0#AN2).

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12079&Mode=0>

**4. Master Direction on Levy of Penal Interest for Delayed Reporting / Wrong Reporting / Non-Reporting of Currency Chest Transactions and Inclusion of Ineligible Amounts in Currency Chest Balances**

RBI/2021-22/77 Master Direction DCM (CC) No.G-4/03.35.01/2021-22 April 01, 2021

*The Chairman/ Managing Director/Chief Executive Officer, (All Banks having Currency Chests)*

In terms of the Preamble, under Section 45 of the RBI Act, 1934 and 35 A of the Banking Regulation Act, 1949, the Bank issues guidelines / instructions for realising the objectives of our Clean Note Policy. With a view to sustain these efforts and to ensure discipline among the banks on timely and accurate reporting of currency chest transactions, we have issued instructions on the subject. The Master Direction enclosed incorporates updated guidelines / circulars on the subject. The Direction will be updated from time to time as and when fresh instructions are issued.

**1. Penal interest for Delayed Reporting / Wrong Reporting / Non-Reporting of Currency Chest Transactions**

**1.1 Reporting of Currency Chest Transactions**

The minimum amount of deposit into / withdrawal from currency chest will be ₹ 1,00,000 and thereafter, in multiples of ₹ 50,000.

**1.2 Time limit for Reporting**

**1.2.1** The currency chests should invariably report all transactions through CyM – CC portal on the same day by **7 pm**.

**1.2.2 Relaxation in respect of strike period in banks**

Relaxation in the reporting period on account of strike situation will be considered on case-to-case basis.

**1.3 Levy of penal interest –**

**1.3.1 Delay in Reporting -**

In the event of delay in reporting currency chest transactions, penal interest at the rate indicated in paragraph 3 of this circular will be levied on the **amount due** from the chest holding bank for the period of delay. Penal interest will be calculated on T+0 basis i.e. penal interest will be levied in respect of transactions not reported by currency chests to the Issue Office on the same business day within the time limit prescribed above.

**1.3.2 Wrong reporting**

Penal interest will be levied in respect of cases of wrong reporting in the same manner till the date of receipt of corrected advice by Reserve Bank. As debits/credits to banks' current accounts are raised on the basis of the transactions reported by the currency chests, penal interest will invariably be levied in all cases of wrong reporting by the currency chests. It is expected that currency chests would ensure the correctness of figures reported on the CyM - CC portal. Particular care should be taken to ensure that remittances of fresh notes/notes to the currency chests are not reported as 'deposit' transactions on the portal.

**1.3.3 Penal interest for inclusion of ineligible amounts in the currency chest balances**

(i) Penal interest will be levied in all cases where the bank has enjoyed 'ineligible' credit in its current account with Reserve Bank on account of wrong reporting / delayed reporting / non-reporting of transactions. Penal measures will also be taken in cases of shortages in chest balances / remittances, shortages due to pilferage / frauds, counterfeit banknotes detected in chest balances / remittances as per the prevailing “Scheme of Penalties”.

(ii) Further, only cash held in the custody of joint custodians and 'freely available' to them is eligible for inclusion in the chest balances. Thus, cash kept for safe custody in sealed covers for whatever reasons/cash in trunks/bins under the lock and key of any official/s other than the Joint Custodians or bearing a third lock put by any official in addition to the two locks of the Joint Custodians is not eligible for being included in the chest balances. If such amounts are included in the chest balances, these will be treated as instances of wrong reporting and will attract penal interest at the rate specified in Para 3.

(iii) In all the above cases (excepting shortages in chest balances / remittances, shortages due to pilferage / frauds, counterfeit banknotes detected in chest balances / remittances), penal interest will be levied from the date of inclusion of 'ineligible' amounts in chest balances till the exclusion of such amounts from chest balances. Penal measures for shortages in chest balances / remittances, shortages due to pilferage / frauds, counterfeit banknotes detected in chest balances / remittances will be taken on the basis of prevailing “Scheme of Penalties”.

**2 Levy of penalty**

**2.1 Reporting of Soiled note remittances to RBI**

Soiled note remittances to RBI should not be shown as withdrawal by chest/s. In case such remittances to RBI are wrongly reported as 'withdrawals', a penalty of ₹ 50,000 will be levied irrespective of the value of remittance and period of such wrong reporting.

**2.2 Reporting of diversions in CyM – CC portal**

All currency chest diversions (both between chests of the same bank and between chests of different banks) have to be reported through ‘Diversion Module’ of CyM-CC Portal. The CC sending the diversion should initiate the diversion entry. The receiving CC should acknowledge the same. Diversions must not be reported as Deposit/Withdrawal. A penalty of ₹ 50,000 will be levied for such wrong reporting.

**2.3 Delayed reporting where currency chests had “Net Deposit”**

Penal interest at the prevailing rate for delayed reporting of the instances where the currency chest had reported “net deposit” may not be charged. However, in order to ensure proper discipline in reporting currency chest transactions, a flat penalty of ₹ 50,000 may be levied on the currency chests for delayed reporting irrespective of the value of net deposit.

**3. Rate of penal interest**

Penal interest shall be levied at the rate of 2% over the prevailing Bank Rate for the period of delayed reporting/wrong reporting/non-reporting /inclusion of ineligible amounts in chest balances.

**4. Representations**

**4.1** As the sole criterion for levy of penal interest for **delayed reporting** is the number of days of delay, there should ordinarily be no occasion for banks to request for reconsideration of the Reserve Bank's decision in individual cases. However, representations, if any, on account of genuine difficulties faced by chests especially in hilly/remote areas and those affected by natural calamities, etc., may be made to the Issue Office concerned through the Head / Controlling office of the bank concerned within a month from the date of debit of the bank concerned.

**4.2** In the case of **wrong reporting** representations for waiver will not be considered. {cf. para 1.3.2 above}.

**4.3** As the intention behind the levy of penal interest is to inculcate discipline among banks so as to ensure prompt/correct reporting, pleas by banks for waiver of penal interest on grounds that delayed/wrong/non-reporting did not result in utilization of the Reserve Bank's funds or shortfall in the maintenance of CRR/SLR or that they were the result of clerical mistakes, unintentional or arithmetical errors, first time error, inexperience of staff etc., will **not** be considered as valid grounds for waiver of penal interest. Further, we will take a serious view of all such lapses.

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12056&Mode=0>

**5. Master Direction on “Currency Distribution & Exchange Scheme (CDES)” for bank branches including currency chests based on performance in rendering customer service to members of public**

**RBI/2021-22/76 Master Direction DCM (CC) No.G-2/03.41.01/2021-22 April 01, 2021**

*The Chairman/Managing Director/Chief Executive Officer, All Banks*

In terms of the Preamble, under Section 45 of the RBI Act, 1934 and 35 A of the Banking Regulation Act, 1949, the Bank issues guidelines / instructions for realising the objectives of Clean Note Policy. With a view to sustaining these objectives, the Bank has formulated a scheme of incentives titled Currency Distribution and Exchange Scheme (CDES) in order to ensure that all bank branches provide better customer services to members of public.

1. The Currency Distribution & Exchange Scheme (CDES) for bank branches including currency chests has been formulated in order to ensure that all bank branches provide better customer service to members of public with regard to exchange of notes and coins, in keeping with the objectives of Clean Note Policy.

**2. Incentives**

As per the scheme, banks are eligible for the following financial incentives for providing facilities for exchange of notes and coins:

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| **Sr. No.** | **Nature of Service** | **Particulars of Incentives** |
| i) | Opening of and maintaining currency chests at centres having population of less than 1 lakh in under banked States | **a. Capital Cost:** Reimbursement of 50% of capital expenditure subject to a ceiling of ₹ 50 lakh per currency chest. In the North Eastern region up to 100% of capital expenditure is eligible for reimbursement subject to the ceiling of ₹ 50 lakh.**b. Revenue cost:** Reimbursement of 50% of revenue expenditure for the first 3 years. In the North Eastern region 50% of revenue expenditure will be reimbursed for the first 5 years. |
| ii) | Exchange of soiled notes/ adjudication of mutilated banknotes over the counter at bank branches | **a. Exchange of soiled notes –** ₹ 2 per packet for exchange of soiled notes up to denomination ₹ 50**b. Adjudication of mutilated notes –**₹ 2 per piece |
| iii) | Distribution of coins over counter | i. ₹ 25 per bag for distribution of coins over the counter.ii. The incentives would be paid on the basis of withdrawal from currency chest, without waiting for claims from banks.iii. Banks may put in place a system of checks and balances to ensure that coins are distributed to retail customers in small lots and not to bulk customers.iv. The distribution of coins shall be verified by RBI Regional Offices through inspection of currency chest / incognito visits to branches etc. |

**3. Operational Guidelines to avail performance-based incentives –**

1. The incentives will be paid on the soiled notes actually received in the Issue Office of the RBI. Banks need not submit a separate claim in this regard. Currency chest branch will have to pass on the incentive to the linked branches for the soiled notes tendered / coins distributed by them on a pro-rata basis.
2. ii) Similarly, incentive will be paid in respect of the adjudicated notes received along with the soiled note remittances / sent separately by registered / insured post in a sealed cover to the RBI. No separate claim is required to be made.

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12055&Mode=0>

**6. Master Circular – Scheme of Penalties for bank branches including Currency Chests based on performance in rendering customer service to the members of public**

**RBI/2021-22/03 DCM (CC) No. G-3/03.44.01/2021-22 April 01, 2021**

*The Chairman/Managing Director/Chief Executive Officer, All Banks*

Please refer to the Circular DCM (CC) No. G-1/03.44.01/2020-21 dated July 1, 2020 on the scheme of penalties. A revised and updated version on the subject is annexed for information and necessary action.

1. The Scheme of Penalties for bank branches including currency chests has been formulated in order to ensure that all bank branches provide better customer service to members of public with regard to exchange of notes and coins, in keeping with the objectives of Clean Note Policy.

2. Penalties

Penalties to be imposed on banks for deficiencies in exchange of notes and coins/remittances sent to RBI/operations of currency chests etc. are as follows:

|  |  |  |
| --- | --- | --- |
| **Sr. No.** | **Nature of Irregularity** | **Penalty** |
| i. | Shortages in soiled note remittances and currency chest balances | **For notes in denomination up to ₹ 50**₹ 50/- per piece in addition to the loss**For notes in denomination of ₹ 100 & above**Equal to the value of the denomination per piece in addition to the loss.In case of shortage in soiled note remittances/chest balances, the amount of shortage/loss thereof will be recovered immediately.Penalty will be levied immediately on detection of shortage in soiled note remittances/chest balances, irrespective of the number of pieces detected. |
| ii. | Counterfeit notes detected in soiled note remittances and currency chest balances. | Penalty on account of detection of counterfeit notes by RBI from soiled note remittance of banks and in currency chest balances shall be levied in terms of the instructions issued by DCM (FNVD) No.G-1/16.01.05/2021-22 dated April 01, 2021. |
| iii. | Mutilated notes detected in soiled note remittances and currency chest balances | ₹ 50/- per piece irrespective of the denominationIn case of mutilated notes detected in soiled note remittances and currency chest balances, the amount of loss thereof will be recovered immediately.Penalty will be levied immediately on detection of mutilated notes in soiled note remittances / currency chest balances, irrespective of the number of pieces detected. |
| iv. | Non-compliance with operational guidelines by currency chests detected by RBI officialsa) Non-functioning of CCTVb) Branch cash/documents kept in strong roomc) Non-utilization of NSMs for sorting of notes (NSMs not used for sorting of high denomination notes received over the counter or not used for sorting notes remitted to chest/RBI) | Penalty of ₹ 5000 for each irregularity.Penalty will be enhanced to ₹ 10,000 in case of repetition.Penalty will be levied immediately. |
| v. | Violation of any term of agreement with RBI (for opening and maintaining currency chests) or deficiency in service in providing exchange facilities, as detected by RBI officials e.g.a) Non-issue of coins over the counter to any member of public despite having stock.b) Refusal by any bank branch to exchange soiled notes / refusal by any currency chest branch to adjudicate mutilated notes tendered by any member of publicc) Non conduct of surprise verification of chest balances, at least at bimonthly intervals, by officials unconnected with the custody thereof and by the officials from the Controlling Office once in six months.d) Denial of facilities/services to linked branches of other banks.e) Non acceptance of lower denomination notes (i.e. denomination of ₹ 50 and below) tendered by members of public and linked bank branches.f) Detection of mutilated /counterfeit notes in re-issuable packets prepared by the currency chest branches. | ₹ 10,000 for any violation of agreement or deficiency of service. ₹ 5 lakh in case there are more than 5 instances of violation of agreement/deficiency in service by the branch. The levy of such penalty will be placed in public domain.Penalty will be levied immediately. |

3. Operational Guidelines on levy of penalties –

3.1 Competent Authority –

The Competent Authority to decide the nature of irregularity will be the Officer-in-Charge of the Issue Department of the Regional Office under whose jurisdiction the defaulting currency chest/bank branch is located.

3.2 Appellate Authority -

1. Appeal against the decision of the Competent Authority may be made by the Controlling Office of the currency chest/branch to the Regional Director/Chief General Manager/Officer-in-Charge of the Regional Office concerned, within one month from the date of debit, who may decide whether the same can be accepted/ rejected.
2. Appeals for waiver of penalty made on grounds such as staff being new/untrained, lack of awareness of staff, corrective action having been taken/will be taken, etc. will not be considered.

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12054&Mode=0>

**7. Master Circular – Detection and Impounding of Counterfeit Notes**

**RBI/2021-22/02 DCM (FNVD) G–1/16.01.05/2021-22 April 1, 2021**

*The Chairman/ Managing Director /Chief Executive Officer, All Banks and Director of Treasuries of all States*

Please refer to the [Master Circular DCM (FNVD) G-2/16.01.05/2020-21 dated July 1, 2020](https://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=11931) consolidating the instructions issued till July 1, 2020, relating to Detection and Impounding of Counterfeit Notes. The [Master Circular](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12053&Mode=0#MC) has since been updated by incorporating the instructions issued till date.

**Detection and Impounding of Counterfeit Notes**

**Para 1- Authority to Impound Counterfeit Notes**

The Counterfeit Notes can be impounded by

1. All Banks
2. All Treasuries and Sub-Treasuries.
3. Issue Offices of Reserve Bank of India.

**Para 2 - Detection of Counterfeit Notes**

Banknotes tendered over the counter should be examined for authenticity through machines.

Similarly, banknotes received directly at the back office / currency chest through bulk tenders should also be examined through machines.

No credit to customer’s account is to be given for Counterfeit Notes, if any, detected in the tender received over the counter or at the back-office / currency chest.

In no case, the Counterfeit Notes should be returned to the tenderer or destroyed by the bank branches / treasuries. Failure of the banks to impound Counterfeit Notes detected at their end will be construed as wilful involvement of the bank concerned in circulating Counterfeit Notes and penalty will be imposed.

**Para 3 - Impounding of Counterfeit Notes**

Notes determined as counterfeit shall be stamped as "COUNTERFEIT NOTE" and impounded in the prescribed format ([Annex I](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12053&Mode=0#Annex_I)). Each such impounded note shall be recorded under authentication, in a separate register.

**Para 4 - Issue of Receipt to Tenderer**

When a banknote tendered at the counter of a bank branch / back office and currency chest or treasury is found to be counterfeit, an acknowledgement receipt in the prescribed format ([Annex II](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12053&Mode=0#Annex_II)) must be issued to the tenderer, after stamping the note as in Paragraph 3 ibid. The receipt, in running serial numbers, should be authenticated by the cashier and tenderer. Notice to this effect should be displayed prominently at the offices / branches for information of the public. The receipt is to be issued even in cases where the tenderer is unwilling to countersign it.

**Para 5 - Detection of Counterfeit Notes - Reporting to Police and other bodies**

The following procedure should be followed while reporting incidence of detection of Counterfeit Note to the Police:

For cases of detection of Counterfeit Notes up to 4 pieces, in a single transaction, a consolidated report in the prescribed format ([Annex III](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12053&Mode=0#Annex_III)) should be sent by the Nodal Bank Officer to the police authorities or the Nodal Police Station, along with the suspect Counterfeit Notes, at the end of the month.

For cases of detection of Counterfeit Notes of 5 or more pieces, in a single transaction, the Counterfeit Notes should be forwarded immediately by the Nodal Bank Officer to the local police authorities or the Nodal Police Station for investigation by filing FIR in the prescribed format ([Annex IV](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12053&Mode=0#Annex_IV)).

A copy of the monthly consolidated report / FIR shall be sent to the Forged Note Vigilance Cell constituted at the Head Office of the bank (only in the case of banks), and in the case of the treasury, it should be sent to the Issue Office of the Reserve Bank concerned.

Acknowledgement of the police authorities concerned has to be obtained for note/s forwarded to them both as consolidated monthly statement and for filing of FIR. If the Counterfeit Notes are sent to the police by insured post, acknowledgement of receipt thereof by the police should be invariably obtained and kept on record. A proper follow-up of receipt of acknowledgement from the police authorities is necessary. In case any difficulty is faced by the Offices / Branches due to reluctance of the police to receive monthly consolidated statement / file FIRs, the matter may be sorted out in consultation with the Nodal Officer of the police authority designated to coordinate matters relating to investigation of Counterfeit Banknotes cases. The list of Nodal Police Stations may be obtained from the Regional Office concerned of the Reserve Bank of India.

In order to facilitate identification of people abetting circulation of Counterfeit Notes, banks are advised to cover the banking hall / area and counters under CCTV surveillance and recording and preserve the recording.

Banks should also monitor the patterns / trends of such detection and suspicious trends / patterns should be brought to the notice of RBI / Police authorities immediately.

The progress made by banks in detection and reporting of Counterfeit Notes to Police, RBI, etc. and problems thereof, should be discussed regularly in the meetings of various State Level Committees viz. State Level Bankers’ Committee (SLBC), Standing Committee on Currency Management (SCCM), State Level Security Committee (SLSC), etc.

The data on detection of counterfeit Indian notes at bank branches and treasuries should be included in the monthly returns forwarded to the Reserve Bank Issue Offices as indicated in [para 10](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12053&Mode=0#C10) below.

The definition of 'counterfeiting' in the Indian Penal Code covers currency notes issued by a foreign government authority as well. In case of suspected foreign currency note received for opinion from the police and government agencies, etc., they should be advised to forward the case to the Interpol Wing of the CBI, New Delhi after prior consultation with them.

The Government of India has framed Investigation of High Quality Counterfeit Indian Currency Offences Rules, 2013 under Unlawful Activities (Prevention) Act (UAPA), 1967. The Third Schedule of the Act defines High Quality Counterfeit Indian Currency Note. Activity of production, smuggling or circulation of High Quality Counterfeit Indian Notes has been brought under the ambit of UAPA, 1967.

**Para 6 - Examination of the Banknotes before Issuing over Counters, Feeding ATMs and Remitting to Issue Offices of the Reserve Ban**k

The banks should re-align their cash management in such a manner so as to ensure that cash receipts in the denominations of ₹100 and above are not put into re-circulation without the notes being machine processed for authenticity. The said instructions shall be applicable to all bank branches, irrespective of the volume of daily cash receipt. Any non-compliance will be construed as violation of the [Directive No.3158/09.39.00 (Policy)/2009-10 dated November 19, 2009](https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=5376&Mode=0#M) issued by the Reserve Bank.

In order to obviate complaints regarding receipt of Counterfeit Notes through ATMs, and to curb circulation of counterfeits, it is imperative to put in place adequate safeguards / checks before loading ATMs with notes. Dispensation of Counterfeit Notes through the ATMs would be construed as an attempt to circulate the Counterfeit Notes by the bank concerned.

Detection of counterfeits in chest remittances is also liable to be construed as wilful involvement of the chest branches concerned in circulating Counterfeit Notes and may attract special investigation by police authorities, and other action like suspending the operation of the chest concerned.

Penalty at 100% of the notional value of Counterfeit Notes, in addition to the recovery of loss to the extent of the notional value of such notes, will be imposed under the following circumstances:

a) When Counterfeit Notes are detected in the soiled note remittance of the bank.

b) If Counterfeit Notes are detected in the currency chest balance of a bank during Inspection / Audit by RBI.

In terms of [DPSS.CO.OD.No.1916/06.07.011/2018-19 dated March 7, 2019](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11495&Mode=0), all guidelines, safeguards, standards and control measures applicable to banks relating to (a) currency handling, and (b) cyber-security framework for ATMs, shall also be applicable to the WLA Operators.

**Para 7 - Designating Nodal Bank Officer**

Each bank should designate a Nodal Bank Officer, district-wise and notify the same to the Regional Office of RBI concerned and Police Authorities. All cases of reporting of Counterfeit Note detection as indicated in [Para 5](https://www.rbi.org.in/scripts/FS_Notification.aspx?Id=10517&fn=2753&Mode=0#5) should be done through the Nodal Bank Officer. The Nodal Bank Officer will also serve as the contact point for all Counterfeit Note detection related activities.

**Para 8 - Establishment of Forged Notes Vigilance Cell at Head Office of Bank**

Each bank shall establish at its Head Office, a Forged Note Vigilance (FNV) Cell to undertake the following functions:

1. Dissemination of instructions issued by the Reserve Bank on Counterfeit Notes to bank’s branches. Monitoring the implementation of these instructions. Compilation of data on detection of Counterfeit Notes, and its submission to Reserve Bank, FIU-IND and National Crime Records Bureau (NCRB) as per extant instructions. Follow-up of cases of Counterfeit Notes, with police authorities / designated nodal officer.
2. Sharing of the information thus compiled with bank’s CVO and report to him / her all cases of acceptance / issue of Counterfeit Notes over the counters.
3. Conducting periodic surprise checks at currency chests where shortages / defective / Counterfeit Notes etc. are detected.
4. Ensuring operation of Note Sorting Machines of appropriate capacity at all the currency chests / back offices and closely monitoring the detection of Counterfeit Notes and maintaining the record of the same. Ensuring that only properly sorted and machine examined banknotes are fed into the ATMs / issued over the counters and to put in place adequate safeguards, including surprise checks, both during the processing and in transit of notes.

FNV Cell shall submit status report on a quarterly basis covering the aforesaid aspects to the Chief General Manager, Department of Currency Management, Reserve Bank of India, Central Office, Amar Building, Fourth Floor, Sir P. M. Road, Fort, Mumbai 400 001 / to (email) and to the Issue office of the Regional office of Reserve Bank under whose jurisdiction the FNV Cell is functioning, within a fortnight from the conclusion of the quarter under report. The said report should be sent by e-mail. No hard copy need be sent.

In order to update the record of the addresses of the FNV Cells, the bank shall furnish by e-mail, in the prescribed format ([Annex V](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12053&Mode=0#Annex_V)), the particulars to the Reserve Bank every year, as on 1st April. No hard copy need be sent.

**Para 9 - Provision of Ultra-Violet Lamp and Other Infrastructure**

With a view to facilitating the detection of Counterfeit Notes, all bank branches / identified back offices should be equipped with ultra-violet lamps / other appropriate banknote sorting / detection machines. In addition, all currency chest branches should be equipped with verification, processing and sorting machines and should be used to their optimum capacity. Such machines should conform to the guidelines on '[Note Authentication and Fitness Sorting Parameters' prescribed by the Reserve Bank](https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=5671&Mode=0#A).

The banks shall maintain a daily record of the notes processed through the Note Sorting machines, including the number of counterfeits detected.

The banks should also consider providing at least one counting machine (with dual display facility) for public use at the counter.

**Para 10 - Reporting of Data to RBI / NCRB / FIU-IND**

By All Bank branches

Data on Counterfeit Notes detected by all the branches of the bank shall be reported in the prescribed format, on a monthly basis. A statement ([Annex VI](https://rbidocs.rbi.org.in/rdocs/content/pdfs/02MC01042021_AVI.pdf)) showing the details of Counterfeit Notes detected in the bank branches during the month shall be compiled and forwarded to the Issue Office of Reserve Bank concerned so as to reach them by 7th of the next month. A “nil “report may be sent in case no counterfeit note has been detected during the month.

Under Rule 8 (1) of Prevention of Money Laundering (Maintenance of Records) Amendment Rules, 2013, Principal Officers of banks are also required to report information on cash transactions where forged notes have been detected to The Director, FIU-IND, Financial Intelligence Unit- India, 6th Floor, Hotel Samrat, Chanakyapuri, New Delhi-110021, by the 15th day of the succeeding month, **by uploading the information on the FINnet Portal**. Similarly, data on Counterfeit Note detection is also to be uploaded on the web-enabled software of National Crime Records Bureau, New Delhi **at their website**.

**Para 11- Preservation of Counterfeit Notes Received from Police Authorities**

All Counterfeit Notes received back from the police authorities / courts may be carefully preserved in the safe custody of the bank and a record thereof be maintained by the branch concerned. FNV Cell of the bank shall also maintain a branch-wise consolidated record of such Counterfeit Notes.

These Counterfeit Notes at branches should be subjected to verification on a half-yearly basis (on 31st March and 30th September) by the Officer-in-Charge of the bank office concerned. They should be preserved for a period of three years from the date of receipt from the police authorities.

Counterfeit Notes, which are the subject matter of litigation in the court of law should be preserved with the branch concerned for three years after conclusion of the court case.

After the preservation period, such notes may be sent to the Issue Office of Reserve Bank of India concerned with full details.

**Para 12 - Detection of Counterfeit Notes - Training of Staff**

It is necessary to ensure that the cash handling staff in banks and treasuries / sub-treasuries are fully conversant with the security features of a banknote.

With a view to educating the branch staff on detection of Counterfeit Notes, the design and security features of all the banknotes shown in [Annex VII](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12053&Mode=0#Annex_VII) have been supplied to all the banks / treasuries with instructions to display them prominently at the branches for information of the public. Details of security features of the New Design banknotes of ₹2000, ₹500, ₹200, ₹100, ₹50, ₹20 and ₹10 are available at the link [https://paisaboltahai.rbi.org.in](https://paisaboltahai.rbi.org.in/).

Details of other banknotes are also available under ‘Know your Banknotes’ at the above link.

The Controlling Offices / Training Centers should also organise / conduct training programmes on the security features of banknotes for members of staff to enable detection of Counterfeit Notes at the point of receipt itself. The banks should ensure that all bank personnel handling cash are trained on features of genuine Indian bank notes. These trainings should cover detection, impounding and reporting of Counterfeit Notes. The Reserve Bank will also provide faculty support and training materials.

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12053&Mode=0>

**8. Master Circular – Facility for Exchange of Notes and Coins**

**RBI/2021-22/01 DCM (NE) No.G-4/08.07.18/2021-22 April 01, 2021**

*The Chairman/ The Managing Director/The Chief Executive Officer, All Banks*

Please refer to the [Master Circular DCM (NE) No.G-3/08.07.18/2020-21 dated July 01, 2020](https://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=11932) containing instructions on the facility for exchange of notes and coins. A revised version of [Master Circular](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12052&Mode=0#MC) on the subject is annexed for your information and necessary action.

**1. Facility for Exchange of Notes and Coins at Bank Branches**

**(a)** All branches of banks in all parts of the country are mandated to provide the following customer services, more actively and vigorously to the members of public so that there is no need for them to approach the RBI Regional Offices for this purpose:

1. Issuing fresh / good quality notes and coins of all denominations,
2. Exchanging soiled / mutilated / defective notes,

\*Small Finance Banks and Payment Banks may exchange mutilated and defective notes at their option.

and

1. Accepting coins and notes either for transactions or exchange.

It will be preferable to accept coins, particularly, in the denominations of ₹1 and ₹2, by weighment. However, accepting coins packed in sachets of 100 each would perhaps be more convenient for the cashiers as well as the customers. Such sachets may be kept at the counters and made available to the customers.

**(b)** All branches should provide the above facilities to members of public without any discrimination on all working days. The scheme of providing exchange facility by a few select currency chest branches on one of the Sundays in a month will remain unchanged. The names and addresses of such bank branches should be available with the respective banks.

**(c)** The availability of the above-mentioned facilities at the bank branches should be given wide publicity for information of the public at large.

**(d)** None of the bank branches should refuse to accept small denomination notes and / or coins tendered at their counters. All coins in the denomination of 50 paise, ₹1, ₹2, ₹5, ₹10 and ₹20 of various sizes, theme and design issued from time to time by the Government of India continue to be legal tender.

**2. Reserve Bank of India (Note Refund) Rules, 2009 [as Amended by Reserve Bank of India (Note Refund) Amendment Rules, 2018] - Delegation of Powers**

**(a)** In terms of Section 28 read with Section 58 (2) of Reserve Bank of India Act, 1934, no person is entitled as a right to recover from the Government of India or RBI the value of any lost, stolen, mutilated or imperfect currency note of the GOI or banknote. However, with a view to mitigating the hardship to the public in genuine cases, it has been provided that the RBI may, with the previous sanction of the Central Government, prescribe the circumstances in, and the conditions and limitations subject to which, the value of such currency notes or banknotes may be refunded as a matter of grace.

**(b)** With a view to extending the facility for the benefit and convenience of public, all branches of banks have been delegated powers under Rule 2(j) of Reserve Bank of India (Note Refund) Rules, 2009 [as Amended by Reserve Bank of India (Note Refund) Amendment Rules, 2018] (hereinafter referred to as NRR, 2009) for exchange of mutilated / defective notes free of cost.

**(c)** The NRR, 2009 were amended to enable the public to exchange mutilated notes in Mahatma Gandhi (New) series, which are smaller in size compared to the earlier series. The minimum area of the single largest undivided piece of the note required for payment of full value for notes of rupees fifty and above denominations were also revised. The Reserve Bank of India (Note Refund) Amendment Rules, 2018 have since been notified in the Gazette of India on September 6, 2018.

**3. Liberalized Definition of a Soiled Note**

In order to facilitate quicker exchange facilities, the definition of soiled note has been expanded. A ‘soiled note’ means a note which has become dirty due to normal wear and tear and also includes a two piece note pasted together wherein both the pieces presented belong to the same note and form the entire note with no essential feature missing. These notes should be accepted over bank counters in payment of Government dues and for credit to accounts of the public maintained with banks. However, in no case, these notes should be issued to the public as re-issuable notes and shall be deposited in currency chests for onward transmission to RBI offices as soiled note remittances for further processing.

**4. Mutilated Notes – Presentation and Passing**

A mutilated note is a note of which a portion is missing or which is composed of more than two pieces. Mutilated notes may be presented at any of the bank branches. The notes so presented shall be accepted, exchanged and adjudicated in accordance with [NRR, 2009](https://www.rbi.org.in/Scripts/OccasionalPublications.aspx?head=RBI%20-%20Note%20Refund%20Rules).

**5. Extremely Brittle, Burnt, Charred, Stuck-Up Notes**

Notes which have turned extremely brittle or are badly burnt, charred or inseparably stuck up together and, therefore, cannot withstand normal handling, shall not be accepted by the bank branches for exchange. Instead, the holders may be advised to tender these notes to the Issue Office of Reserve Bank of India concerned where they will be adjudicated under a Special Procedure.

**6. Procedure for Exchange of Soiled/ Mutilated/ Imperfect Notes**

**6.1 Exchange of Soiled Notes**

**6.1.1 Notes presented in small number:** Where the number of notes presented by a person is up to 20 pieces with a maximum value of ₹5,000 per day, banks should exchange them over the counter, free of charge.

**6.1.2 Notes presented in bulk:** Where the number of notes presented by a person exceeds 20 pieces or ₹5,000 in value per day, banks may accept them, against receipt, for value to be credited later. Banks may levy service charges as permitted in Master Circular on Customer Service in Banks ([DBR.No.Leg.BC.21/09.07.006/2015-16 dated July 1, 2015](https://rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=9862)). In case tendered value is above ₹50,000, banks are expected to take the usual precautions.

**6.2 Exchange of Mutilated and Imperfect Notes**

**6.2.1** While designated branches may continue to follow the procedure as laid down in Part III of NRR, 2009 ([www.rbi.org.in](https://www.rbi.org.in/)→Publications→Occassional) for exchanging mutilated and imperfect notes and issue receipt for the notes presented for adjudication, non-chest branches are required to follow the following procedure for notes presented in small numbers and in bulk.

**6.2.2 Notes presented in small number:** Where the number of notes presented by a person is up to 5 pieces, non-chest branches should normally adjudicate the notes as per the procedure laid down in Part III of NRR, 2009 and pay the exchange value over the counter. If the non-chest branches are not able to adjudicate the mutilated notes, the notes may be received against a receipt and sent to the linked currency chest branch for adjudication. The probable date of payment should be informed to the tenderers on the receipt itself and the same should not exceed 30 days. Bank account details should be obtained from the tenderers for crediting the exchange value by electronic means.

**6.2.3 Notes presented in bulk:** Where the number of notes presented by a person is more than 5 pieces not exceeding ₹5,000 in value, the tenderer should be advised to send such notes to nearby currency chest branch by insured post giving his / her bank account details (a/c no, branch name, IFSC, etc.) or get them exchanged thereat in person. All other persons tendering mutilated notes whose value exceeds ₹5,000 should be advised to approach nearby currency chest branch. Currency chest branches receiving mutilated notes through insured post should credit the exchange value to the account of sender by electronic means within 30 days of receipt of notes.

**6.3** Tenderers aggrieved with the service provided by the banks in this regard may approach Banking Ombudsman concerned, following the procedure as laid under Banking Ombudsman Scheme, 2006 with the bank/ postal receipts as proof for necessary action.

**7. Notes Bearing "PAY" / "PAID" / "REJECT" Stamps**

**(a)** Every Officer-in-charge of the branch i.e. the Branch Manager and every Officer-in-charge of the Accounts or Cash Wing of the Branch shall act as 'Prescribed Officer' in each branch to adjudicate the notes received at the branch for exchange in accordance with NRR, 2009. After adjudicating mutilated notes, the Prescribed Officer is required to record his order by subscribing his initials to the dated 'PAY'/ 'PAID'/ 'REJECT' stamp. The 'PAY' /'PAID' & 'REJECT' stamps should also carry the name of the bank and branch concerned and held under the custody of the 'Prescribed Officer' to avoid misuse.

**(b)** Mutilated / defective notes bearing 'PAY'/'PAID' (or 'REJECT') stamp of any RBI Issue Office or any bank branch, if presented for payment again at any of the bank branches should be rejected under Rule 6(2) of NRR, 2009 and the tenderer should be advised that the value of such note/s cannot be paid since the same has already been paid as is evident from the PAY/ PAID stamps affixed on it/ them. All bank branches have instructions not to issue notes bearing PAY/ PAID stamps to the public even through oversight. The branches should caution their customers not to accept such notes from any bank or anybody else.

**8. Notes with Slogans/ Scribbling/ Stain etc.**

**(a)** Notes with slogans, political or religious messages, scribbling, stain (including colour stain) etc. are unfit for usage and circulation and go against Clean Note Policy of RBI.

**(b)** Such notes received from members of public may not be reissued for circulation. They may be remitted to currency chest for onward remittance to RBI offices.

**(c)** Any note with slogans and message of a political or religious nature written across it ceases to be a legal tender and the claim on such a note will be rejected under Rule 6(3) (iii) of NRR, 2009. Similarly, notes which are disfigured may also be rejected under Rule 6(3) (ii) of [NRR, 2009](https://www.rbi.org.in/Scripts/OccasionalPublications.aspx?head=RBI%20-%20Note%20Refund%20Rules).

**(d)** All Bank notes with scribbling / stain (including colour stain) on them continue to be legal tender. Such notes can be deposited or exchanged in any bank branch.

**9. Deliberately Cut Notes**

The notes, which are found to be deliberately cut, torn, altered or tampered with, if presented for payment of exchange value should be rejected under Rule 6(3) (ii) of the NRR, 2009. Although it is not possible to precisely define deliberately cut notes, a close look at such notes will clearly reveal any deliberate fraudulent intention, as the manner in which such notes are mutilated will follow a broad uniformity in the shape/ location of missing portions of the notes, especially when the notes are tendered in large numbers. The details of the case such as the name of the tenderer, the number of notes tendered and their denominations should be reported thereafter to the DGM/ GM, Issue Department, Reserve Bank of India under whose jurisdiction the branch falls. The matter should also be reported to local police in case a large number of such notes are tendered.

**10. Training**

RBI Issue Offices conduct training programmes for 'Prescribed Officers' of bank branches on a priority basis. As the training programmes are intended to provide knowledge and instil confidence in the Prescribed Officers in the process of adjudication of defective notes, it is imperative that the Prescribed Officers of the branches are deputed for such programmes.

**11. Display of Notice Board**

All bank branches are required to display at their branch premises, at a prominent place, a board indicating the availability of note and coin exchange facility with the legend, "SOILED/ MUTILATED NOTES AND COINS ARE ACCEPTED AND EXCHANGED HERE" for information of general public. Banks should ensure that all their branches provide facility for exchange of notes and coins not only to their customers but also others. However, they should ensure that the note exchange facility is not cornered by money changers / dealers in defective notes.

**12. Disposal of Notes Adjudicated at Bank Branches**

Regarding audit of the notes adjudicated by bank branches, the full value paid notes have to be remitted by all branches to the chest branches with which they have been linked and therefrom to the RBI Issue Offices concerned together with the next soiled note remittance in the manner already laid down. The half value paid notes and rejected notes, which are held by the chest branches in their cash balance, may either be remitted separately packed together with the full value paid notes or sent by registered and insured post as and when required. The full value paid notes will be treated as chest remittance by the RBI Issue Office while the half value paid notes and rejected notes will be treated as notes tendered for adjudication and processed accordingly. All chest branches are required to submit to our RBI Issue Offices a monthly statement showing the number of notes adjudicated during the month.

**13. Uncurrent Coins**

The coins of 25 paise and below, issued from time to time, ceased to be legal tender for payments as well as account with effect from June 30, 2011 in terms of Gazette Notification No. 2529 dated December 20, 2010 issued by the Government of India.

**14. Monitoring and Control**

**(a)** The Regional Managers / Zonal Managers of the banks may pay surprise visits to the branches and report the position of compliance in this regard to the Head Office which will review such reports and take prompt remedial action, wherever necessary.

**(b)** Any non-compliance in this regard shall be viewed as violation of instructions issued by the Reserve Bank of India.

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12052&Mode=0>

**9. Risk-Based Internal Audit (RBIA)**

**RBI/2020-21/88 Ref.No.DoS.CO.PPG./SEC.05/11.01.005/2020-21 February 03, 2021**

*The Chairman / Managing Director / Chief Executive Officer, All deposit taking Non-Banking Financial Companies (NBFCs), All non-deposit taking NBFCs (including Core Investment Companies) with asset size of ₹5,000 crore and above, All Primary (Urban) Co-operative Banks (UCBs) with asset size of ₹500 crore and above*

An independent and effective internal audit function in a financial entity provides vital assurance to the Board and its senior management regarding the quality and effectiveness of the entity’s internal control, risk management and governance framework. The essential requirements for a robust internal audit function include, inter alia, sufficient authority, proper stature, independence, adequate resources and professional competence.

2. The range and commonality of risks faced by Supervised Entities (SEs) would warrant effective and harmonized systems and processes for the internal audit function across the SEs based on certain common guiding principles.

3. The introduction of Risk-Based Internal Audit (RBIA) system was mandated for all Scheduled Commercial Banks (except Regional Rural Banks) vide our [circular DBS.CO.PP.BC.10/11.01.005/2002-03 dated December 27, 2002](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=1020&Mode=0), which was further supplemented vide [circular DoS.CO.PPG./SEC.04/11.01.005/2020-21 dated January 07, 2021](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12011&Mode=0). It has now been decided to mandate RBIA framework for the following Non-Banking Financial Companies (NBFCs) and Primary (Urban) Co-operative Banks (UCBs):

1. All deposit taking NBFCs, irrespective of their size;
2. All Non-deposit taking NBFCs (including Core Investment Companies) with asset size of ₹5,000 crore and above; and
3. All UCBs having asset size of ₹500 crore and above[1](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12018&Mode=0#F1).

4. The Supervised Entities as indicated in Para 3 above shall implement the RBIA framework by March 31, 2022 in accordance with the Guidelines on Risk-Based Internal Audit provided in the enclosed [Annex](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12018&Mode=0#ANN). The Guidelines are intended to enhance the efficacy of internal audit systems and processes followed by the NBFCs and UCBs.

5. Further, in order to ensure smooth transition from the existing system of internal audit to RBIA, the concerned NBFCs and UCBs may constitute a committee of senior executives with the responsibility of formulating a suitable action plan. The committee may address transitional and change management issues and should report progress periodically to the Board and senior management.

6. This circular should be placed before the Board in its next meeting. The implementation of these guidelines as per timeline specified should be done under the oversight of the Board.

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12018&Mode=0>

**10. Risk Based Internal Audit (RBIA) Framework – Strengthening Governance arrangements**

**RBI/2020-21/83 Ref.No.DoS.CO.PPG./SEC.04/11.01.005/2020-21 January 07, 2021**

*The Chairman / Managing Director / Chief Executive Officer, All Scheduled Commercial Banks (Excluding RRBs), All Local Area Banks, All Small Finance Banks and All Payments Banks*

In terms of the Guidance Note on Risk-Based Internal Audit issued by RBI vide [circular DBS.CO.PP.BC.10/11.01.005/2002-03 dated December 27, 2002](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=1020&Mode=0), banks, inter alia, are required to put in place a risk based internal audit (RBIA) system as part of their internal control framework that relies on a well-defined policy for internal audit, functional independence with sufficient standing and authority within the bank, effective channels of communication, adequate audit resources with sufficient professional competence, among others.

2. While the aforesaid Guidance Note lays out the basic approach for risk based internal audit functions, banks are expected to re-orient their approach, in line with the evolving best practices, as a part of their overall Governance and Internal Control framework. Banks are encouraged to adopt the International Internal Audit standards, like those issued by the Basel Committee on Banking Supervision (BCBS) and the Institute of Internal Auditors (IIA).

3. To bring uniformity in approach followed by the banks, as also to align the expectations on Internal Audit Function with the best practices, banks are advised as under:

1. Authority, Stature and Independence - The internal audit function must have sufficient authority, stature, independence and resources within the bank, thereby enabling internal auditors to carry out their assignments with objectivity. Accordingly, the Head of Internal Audit (HIA) shall be a senior executive of the bank who shall have the ability to exercise independent judgement. The HIA as well as the internal audit function shall have the authority to communicate with any staff member and have access to all records or files that are necessary to carry out the entrusted responsibilities.
2. Competence - Requisite professional competence, knowledge and experience of each internal auditor is essential for the effectiveness of the bank's internal audit function. The desired areas of knowledge and experience may include banking operations, accounting, information technology, data analytics and forensic investigation, among others. Banks should ensure that internal audit function has the requisite skills to audit all areas of the bank.
3. Staff Rotation - Except for the entities where the internal audit function is a specialised function and managed by career internal auditors, the Board should prescribe a minimum period of service for staff in the Internal Audit function. The Board may also examine the feasibility of prescribing at least one stint of service in the internal audit function for those staff possessing specialized knowledge useful for the audit function, but who are posted in other departments, so as to have adequate skills for the staff in the Internal Audit function.
4. Tenor for appointment of Head of Internal Audit - Except for the entities where the internal audit function is a specialised function and managed by career internal auditors, the HIA shall be appointed for a reasonably long period, preferably for a minimum of three years.
5. Reporting Line - The HIA shall directly report to either the Audit Committee of the Board (ACB) / MD & CEO or Whole Time Director (WTD). Should the Board of Directors decide to allow the MD & CEO or a WTD to be the ‘reporting authority’ of the HIA, then the ‘reviewing authority’ shall be with the ACB and the ‘accepting authority’ shall be with the Board in matters of performance appraisal of the HIA. Further, in such cases, the ACB shall meet the HIA at least once in a quarter, without the presence of the senior management, including the MD & CEO/WTD. The HIA shall not have any reporting relationship with the business verticals of the bank and shall not be given any business targets. In foreign banks operating in India as branches, the HIA shall report to the internal audit function in the controlling office / head office.
6. Remuneration - The independence and objectivity of the internal audit function could be undermined if the remuneration of internal audit staff is linked to the financial performance of the business lines for which they exercise audit responsibilities. Thus, the remuneration policies should be structured in a way that it avoids creating conflict of interest and compromising audit’s independence and objectivity.

4. The internal audit function shall not be outsourced. However, where required, experts, including former employees, could be hired on contractual basis subject to the ACB being assured that such expertise does not exist within the audit function of the bank. Any conflict of interest in such matters shall be recognised and effectively addressed. Ownership of audit reports in all cases shall rest with regular functionaries of the internal audit function.

5. Banks must ensure and demonstrate through proper documentation that their risk-based internal audit framework captures all the significant criteria / principles suited for their organisational structure, the business model and the risks.

6. The instructions contained in this circular shall come into effect immediately from the date of this circular.

7. This circular supplement the guidelines issued by Reserve Bank of India on [December 27, 2002](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=1020&Mode=0) on Risk-based internal audit along with other circulars/instruction on the subject issued from time-to time and for any common areas of guidance, the prescription of this circular shall be followed.

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12011&Mode=0>