**Risk Management**

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**1. Guidelines for Managing Risk in Outsourcing of Financial Services by Co-operative Banks**

**RBI/2021-22/64 DOR.ORG.REC.27/21.04.158/2021-22 June 28, 2021**

*The Chief Executive Officer, All Co-operative Banks*

It is observed that the co-operative banks are increasingly using outsourcing as a means for reducing costs as well as for availing specialist expertise, where these are not available internally.

2. While it is entirely the banks’ prerogative to take a view on the desirability of outsourcing a permissible activity having regard to all relevant factors, including the commercial aspects of the decision, such outsourcing results in banks being exposed to various risks. To enable the co-operative banks to put in place necessary safeguards for addressing the risks inherent in outsourcing of activities, guidelines on managing risks in outsourcing are given in Annex.

3. Co-operative banks are advised to conduct a self-assessment of their existing outsourcing arrangements and bring the same in line with these guidelines within a period of six months from the date of issue of this circular.

**Annex**

**Introduction**

1.1 'Outsourcing' is defined as use of a third party to perform activities on a continuing basis that would normally be undertaken by a co-operative bank itself, now or in the future. 'Continuing basis' would include agreements for a limited period.

1.2 These guidelines are intended to provide direction and guidance to co-operative banks to adopt sound and responsive risk management practices for effective oversight, due diligence and management of risks arising from outsourcing activities.

1.3 The underlying principles behind these guidelines are that the co-operative bank should ensure that outsourcing arrangements neither diminish its ability to fulfil its obligations to customers and RBI, nor impede effective supervision by Reserve Bank of India (RBI)/ National Bank for Agriculture and Development (NABARD)1. Co-operative banks, therefore, have to take steps to ensure that the service provider employs the same high standard of care in performing the services as would be employed by them, if the activities were conducted by the banks and not outsourced. Accordingly, co-operative banks should not engage in outsourcing that would result in their internal control, business conduct or reputation being compromised or weakened.

1.4 These guidelines are concerned with managing risks in outsourcing of financial services and are not applicable to technology-related issues as also activities not related to financial services like usage of courier, catering of staff, housekeeping and janitorial services, security of the premises, movement and archiving of records, etc. Co-operative banks which desire to outsource would not require prior approval from RBI / NABARD. However, such arrangements would be subject to on-site / off-site monitoring and inspection/scrutiny by RBI / NABARD.

**2. Activities that shall not be outsourced**

Co-operative banks which choose to outsource financial services, however, shall not outsource core management functions including policy formulation, internal audit and compliance, compliance with KYC norms, credit sanction and management of investment portfolio. However, where required, experts, including former employees, could be hired on a contractual basis subject to the Audit Committee of Board/Board 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.

**3. Material Outsourcing**

During Inspections/ scrutinies, RBI / NABARD will review the implementation of these guidelines to assess the quality of related risk management systems particularly in respect of material outsourcing. Material outsourcing arrangements are those, which if disrupted, have the potential to significantly impact the business operations, reputation or profitability of co-operative banks. Materiality of outsourcing would be based on:-

1. The level of importance to the co-operative bank of the activity being outsourced as well as the significance of the risk posed by the same;
2. The potential impact of the outsourcing by the co-operative bank on various parameters such as earnings, solvency, liquidity, funding capital and risk profile;
3. The likely impact on the co-operative bank’s reputation and brand value, and ability to achieve its business objectives, strategies and plans, should the service provider fail to perform the service;
4. The cost of the outsourcing as a proportion of total operating costs of the co-operative bank;
5. The aggregate exposure to that particular service provider, in cases where the co-operative bank outsources various functions to the same service provider;
6. The significance of activities outsourced in context of customer service and protection.

**4. Co-operative bank's role**

4.1 The outsourcing of any activity by a co-operative bank does not diminish its obligations, and those of its Board and CEO along with the Management, who have the ultimate responsibility for the outsourced activity. Co-operative banks shall, therefore, be responsible for the actions of their service provider including actions of the Business Correspondents and their retail outlets / sub-agents and the confidentiality of information pertaining to the customers that is available with the service provider. The bank shall retain ultimate control of the outsourced activity.

4.2 The co-operative banks shall consider all relevant laws, regulations, guidelines and conditions of approval, licensing or registration when performing its due diligence in relation to outsourcing.

4.3 The grievance redressal mechanism of co-operative banks should not be compromised on account of outsourcing. Outsourcing arrangements shall not affect the rights of a customer against the co-operative bank, including the ability of the customers to redress their grievances as applicable under relevant laws.

4.4 Outsourcing shall not impede or interfere with the ability of a co-operative bank to effectively oversee and manage its activities nor should it impede RBI / NABARD in carrying out its supervisory functions and objectives.

4.5 The service provider should not be owned or controlled by any director or officer/employee of the co-operative bank or their relatives having the same meaning as assigned under the Companies Act, 2013 and the Rules framed thereunder from time to time.

**5. Risk Management practices for outsourcing**

5.1 Outsourcing Policy

A co-operative bank intending to outsource any of its financial activities shall put in place a comprehensive outsourcing policy, approved by its Board, which incorporates, inter alia, criteria for selection of such activities as well as service providers, parameters for defining material outsourcing based on the broad criteria indicated in para 3, delegation of authority depending on risks and materiality and systems to monitor and review the operations of these activities.

5.2 Role of the Board of Directors (Board), and CEO along with the Senior Management

5.2.1 The Board, and CEO along with the Senior Management shall be ultimately responsible for outsourcing operations and for managing risks inherent in such outsourcing relationships. The Board and CEO along with the Management shall have the responsibility to institute an effective governance mechanism and risk management process for all outsourced operations.

The Board shall be responsible, inter alia, for: -

1. Approving a framework to evaluate the risks and materiality of all existing and prospective outsourcing and the policies that apply to such arrangements;
2. Laying down appropriate approval authorities for outsourcing depending on risks and materiality;
3. Undertaking regular review of the framework for its efficacy and update the same to ensure that the outsourcing strategies and arrangements have continued relevance, effectiveness, safety and soundness;
4. Deciding on business activities of a material nature to be outsourced and approving such arrangements;
5. Assessment of management competencies to develop sound and responsive outsourcing risk management policies and procedures commensurate with the nature, scope, and complexity of outsourcing arrangements; and
6. Setting up suitable administrative framework of management for the purpose of these guidelines.

5.2.2 Chief Executive Officer (CEO) and Senior Management of the bank shall be responsible for:

1. Evaluating the risks and materiality of all existing and prospective outsourcing, based on the framework approved by the Board;
2. Developing and implementing sound and prudent procedures commensurate with the nature, scope and complexity of the outsourcing;
3. Reviewing periodically the effectiveness of policies and procedures;
4. Communicating information pertaining to material outsourcing risks to the Board in a timely manner;
5. Ensuring that contingency plans, based on realistic and probable disruptive scenarios, are in place and tested;
6. Ensuring that there is independent review and audit for compliance with set policies; and
7. Undertaking periodic review of outsourcing arrangements to identify new material outsourcing risks.

**5.3 Evaluation of the Risks**

The indicative key risks in outsourcing that need to be evaluated by the co-operative banks are: -

1. Strategic Risk – The service provider may conduct business on its own behalf, which is inconsistent with the overall strategic goals of the bank.
2. Reputation Risk - Poor service from the service provider, its customer interaction not being consistent with the overall standards of the bank, or failure in preservation and protection of confidential customer information.
3. Compliance Risk - Privacy, consumer and prudential laws not adequately complied with.
4. Operational Risk – Arising due to technology failure, fraud, error, inadequate financial capacity to fulfil obligations and/or provide remedies.
5. Legal Risk - Includes but is not limited to exposure to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements due to omissions and commissions of the service provider.
6. Exit Strategy Risk - This could arise from over-reliance on one firm, the loss of relevant skills in the bank itself preventing it from bringing the activity back in-house and where the bank has entered into contracts wherein speedy exits would be prohibitively expensive.
7. Counterparty Risk - Due to inappropriate underwriting or credit assessments.
8. Contractual Risk – Arising from whether or not the bank has the ability to enforce the contract.
9. Country Risk - Due to political, social or legal climate creating added risk.
10. Concentration and Systemic Risk - Due to lack of control of individual banks over a service provider, more so when overall banking industry has considerable exposure to one service provider.

**5.4 Evaluating the Capability of the Service Provider**

5.4.1 In considering or renewing an outsourcing arrangement, co-operative banks shall undertake appropriate due diligence to assess the capability of the service provider to comply with obligations in the outsourcing agreement. Due diligence should take into consideration qualitative, quantitative, financial, operational and reputational factors. Co-operative banks shall consider whether the service providers’ systems are compatible with their own and also whether their standards of performance including in the area of customer service are acceptable to it. Co-operative banks shall also consider, while evaluating the capability of the service provider, issues relating to undue concentration of outsourcing arrangements with a single service provider. Where possible, co-operative banks may obtain independent reviews and market feedback on the service provider to supplement their own findings.

5.4.2 Due diligence should involve an evaluation of all available information about the service provider, including but not limited to the following: -

1. Past experience, competence to implement and support the proposed activity over the contracted period;
2. Financial soundness and ability to service commitments even under adverse conditions;
3. Business reputation, culture, compliance, complaints and outstanding or potential litigation;
4. Security, internal controls, audit coverage, reporting, monitoring and business continuity management;
5. External factors like political, economic, social and legal environment of the jurisdiction in which the service provider operates and other events that may impact service performance;
6. Ensuring due diligence by service provider of his employees; and
7. Ability to effectively service all the customers with confidentiality where a service provider has exposure to multiple banks.

**5.5 The Outsourcing Agreement**

The terms and conditions governing the contract between a co-operative bank and service provider should be carefully defined in written agreements and vetted by bank’s legal counsel on their legal effect and enforceability. Every such agreement should address the risks and risk mitigation strategies. The agreement should be sufficiently flexible to allow the bank to retain an appropriate level of control over the outsourcing and the right to intervene with appropriate measures to meet legal and regulatory obligations. The agreement should also bring out the nature of legal relationship between the parties, i.e., whether agent, principal or otherwise.

Some of the key provisions of the contract would be:

1. The contract should clearly define the activities being outsourced including Service Level Agreements (SLAs) to agree and establish accountability for performance expectations. SLAs must clearly formalize the performance criteria to measure the quality and quantity of service levels.
2. The co-operative bank shall ensure its ability to access all books, records and information relevant to the outsourced activity available with the service provider.
3. The contract should provide for continuous monitoring and assessment of the service provider by the co-operative bank so that any necessary corrective measure can be initiated immediately.
4. Controls to ensure customer data confidentiality and service providers’ liability in case of breach of security and leakage of confidential customer related information shall be incorporated.
5. A termination clause and notice period should be included.
6. Contingency plans to ensure business continuity should be included.
7. The contract should provide for the prior approval/consent of co-operative bank for use of subcontractors by the service provider for all or part of an outsourced activity. Before according the consent, co-operative banks should review the subcontracting arrangement and ensure that these arrangements are compliant with the extant guidelines on outsourcing.
8. The contract should provide the co-operative banks with the right to conduct audits on the service provider whether by its internal or external auditors, or by agents appointed to act on its behalf and to obtain copies of any audit or review reports and findings made on the service provider in conjunction with the services performed for the co-operative bank.
9. Outsourcing agreement should include a clause to allow RBI/NABARD or persons authorised by it to access the co-operative bank’s documents, records of transactions, logs and other necessary information given to, stored or processed by the service provider, within a reasonable time. This includes information maintained in paper and electronic formats.
10. Outsourcing agreement should also include a clause to recognise the right of the RBI / NABARD to cause an inspection of a service provider of a co-operative bank and its books and accounts by one or more of its officers or employees or other authorised persons.
11. The outsourcing agreement should also provide that confidentiality of customers’ information should be maintained even after the contract expires or gets terminated. Further, co-operative bank shall have necessary provisions to ensure that the service provider preserves documents as required by law and take suitable steps to ensure that its interests are protected in this regard even post termination of the services.

**5.6 Confidentiality and Security**

5.6.1 Public confidence and customer trust in co-operative bank is a prerequisite for the stability and reputation of the bank. Hence, the co-operative banks shall seek to ensure the preservation and protection of the security and confidentiality of customer information in the custody of the service provider.

5.6.2 Access to customer information by staff of the service provider shall be on ‘need to know’ basis, i.e., limited to those areas where the information is required in order to perform the outsourced function.

5.6.3 The co-operative banks shall ensure that the service provider is able to isolate and clearly identify the co-operative bank’s customer information, documents, records and assets to protect the confidentiality of the information. In the instances, where service provider acts as an outsourcing agent for multiple banks, care should be taken to build adequate safeguards so that there is no comingling of information/documents, records and assets.

5.6.4 The co-operative banks shall review and monitor the security practices and control processes of the service provider on a regular basis and require the service provider to disclose security breaches.

5.6.5 The co-operative banks shall immediately notify RBI / NABARD in the event of any breach of security and leakage of confidential customer related information. In these eventualities, the co-operative bank shall be liable to its customers for any damage.

**5.7 Business Continuity and Management of Disaster Recovery Plan**

5.7.1 Co-operative banks shall require its service providers to develop and establish a robust framework for documenting, maintaining and testing business continuity and recovery procedures. Banks need to ensure that the service provider periodically tests the Business Continuity and Recovery Plan. Banks may also conduct joint testing and recovery exercises with its service provider at mutually agreed frequency but at least annually.

5.7.2 In order to mitigate the risk of unexpected termination of the outsourcing agreement or liquidation of the service provider, co-operative banks shall retain an appropriate level of control over their outsourcing and the right to intervene with appropriate measures to continue its business operations in such cases without incurring prohibitive expenses and without any break in the operations of the bank and its services to the customers.

5.7.3 In establishing a viable contingency plan, co-operative banks should consider the availability of alternative service providers or the possibility of bringing the outsourced activity back in-house in an emergency and the costs, time and resources that would be involved.

5.7.4 Co-operative banks to ensure that in adverse conditions and/ or termination of the contract, all documents, records of transactions and information given to the service provider and assets of the bank can be removed from the possession of the service provider in order to enable the bank to continue its business operations; or deleted, destroyed or rendered unusable.

**5.8 Monitoring and Control of Outsourced Activities**

5.8.1 The co-operative banks shall have in place a management structure to monitor and control their outsourcing activities. It shall also be ensured that outsourcing agreements with the service provider contain provisions to address their monitoring and control of outsourced activities.

5.8.2 A central record of all material outsourcing that is readily accessible for review by the Board and CEO along with the management of the co-operative bank shall be maintained. The records should be updated promptly and half yearly reviews should be placed before the Board.

5.8.3 Regular audits at least annually by either the internal auditors or external auditors of the bank should assess the adequacy of the risk management practices adopted in overseeing and managing the outsourcing arrangement, the bank’s compliance with its risk management framework and these guidelines.

5.8.4 Co-operative banks shall at least on an annual basis, review the financial and operational condition of the service provider to assess its ability to continue to meet its outsourcing obligations. Such due diligence reviews, which can be based on all available information about the service provider should highlight any deterioration or breach in performance standards, confidentiality and security, and in business continuity preparedness. Co-operative banks shall also submit an Annual Compliance Certificate giving the particulars of outsourcing contracts, the prescribed periodicity of audit by internal / external auditor, major findings of the audit and action taken through Board, to the Regional Offices of RBI / NABARD.

5.8.5 The event of termination of any outsourcing agreement for any reason where the service provider deals with customers, shall be publicised by displaying at a prominent place in the branches and posting it on the bank’s website so as to ensure that the customers do not continue to deal with the service provider.

5.8.6 Certain cases, like outsourcing of cash management, might involve reconciliation of transaction between the co-operative banks, the service provider and its sub-contractors. In such cases, banks should ensure reconciliation of transactions between the bank and the service provider (and /or its subcontractor) are carried out as advised in RBI guidelines on ‘Outsourcing of Cash Management – Reconciliation of Transactions’ dated May 14, 2019 as amended from time to time.

5.8.7 A robust system of internal audit of all outsourced activities shall be put in place and monitored at the Board level.

**5.9 Redressal of Grievances related to Outsourced services**

5.9.1 The co-operative banks shall give wide publicity to the Grievance Redressal Machinery within the bank and also by placing the information on their website. It should be clearly indicated that co-operative banks' Grievance Redressal Machinery will also deal with the issues relating to services provided by the outsourced agencies. The name and contact number of designated grievance redressal officer of the co-operative bank should be made known and widely publicised. The designated officer should ensure that genuine grievances of customers are redressed promptly.

5.9.2 The grievance redressal procedure of the co-operative bank and the time frame fixed for responding to the complaints shall be placed on the bank's website.

**5.10 Reporting of transactions to FIU or other competent authorities**

Co-operative banks shall be responsible for making Currency Transactions Reports and Suspicious Transactions Reports to FIU or any other competent authority in respect of the banks' customer related activities carried out by the service providers.

**6 Centralised List of Outsourced Agents**

If a service provider’s contract is terminated prematurely prior to the completion of contracted period of service, Indian Banks' Association (IBA) would have to be informed with reasons for termination. IBA would be maintaining a caution list of such service providers for the entire banking industry for sharing among banks.

*1 Reserve Bank of India is the supervisor for Primary (Urban) Co-operative Banks. National Bank for Agriculture and Rural Development is the supervisor for State Co-operative Banks and Central Co-operative Banks. The word ‘RBI/NABARD’ mentioned in these guidelines may be interpreted in relation to the relevant supervising authority of co-operative banks.*

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12123&Mode=0>

2. **New Definition of Micro, Small and Medium Enterprises**

**RBI/2021-2022/63 FIDD.MSME & NFS.BC.No.12/06.02.31/2021-22 June 25, 2021**

*The Chairman/ Managing Director/Chief Executive Officer, All Commercial Banks
(including Small Finance Banks, Local Area Banks and Regional Rural Banks) All Primary (Urban) Co-operative Banks/State Co-operative Banks / District Central Co-operative Banks
All-India Financial Institutions All Non-Banking Financial Companies*

Please refer to the [circular FIDD.MSME & NFS.BC.No.4/06.02.31/2020-21 dated August 21, 2020](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11951&Mode=0) on ‘New Definition of Micro, Small and Medium Enterprises –clarifications’.

2. In this connection, we inform that Government of India, vide their [Gazette Notification S.O. 2347(E) dated June 16, 2021](https://rbidocs.rbi.org.in/rdocs/content/pdfs/MoMSME16062021.pdf), has notified amendments in paragraph (7) sub-paragraph (3) in the notification of Government of India, Ministry of Micro, Small and Medium Enterprises number [S.O. 2119 (E), dated June 26, 2020](https://rbidocs.rbi.org.in/rdocs/content/pdfs/IndianGazzate02072020.pdf), published in the Gazette of India.

3. In view of the above amendment, paragraph 2.2 (i) of [RBI circular dated August 21, 2020](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11951&Mode=0) stands modified as under:

“The existing Entrepreneurs Memorandum (EM) Part II and Udyog Aadhaar Memorandum (UAMs) of the MSMEs obtained till June 30, 2020 shall remain valid till December 31, 2021”.

4. All other provisions of the circular remain unchanged.

3. **Appointment of Chief Risk Officer in Primary (Urban) Co-operative Banks**

**RBI/2021-2022/62 DOR.CRE(DIR).REC.26/21.04.103/2021-22 June 25, 2021**

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

With increasing size and scope of business, Primary (Urban) Co-operative Banks (UCBs) are gradually getting exposed to greater degree of risks. It is, therefore, necessary that every UCB focuses its attention on putting in place appropriate risk management mechanism commensurate with its business profile and strategic objectives. In this connection, it has been decided that all UCBs having asset size1 of ₹5000 crore or above, shall appoint a Chief Risk Officer (CRO). The Board2 must clearly define the CRO’s role and responsibilities and ensure that he/she functions independently.

2. UCBs shall strictly adhere to the following instructions in this regard:

The CRO shall be a senior official in the bank’s hierarchy and shall have adequate professional qualification / experience in the area of risk management.

The CRO shall be appointed for a fixed tenure with the approval of the Board. The CRO can be transferred / removed from the post before completion of the tenure only with the approval of the Board and such premature transfer / removal shall be reported to the concerned Regional Office3 of Department of Supervision, Reserve Bank of India.

The Board shall put in place adequate policies to safeguard the independence of the CRO. The CRO shall have direct reporting lines to MD/CEO or Board or Risk Management Committee of Board (RMC). In case the CRO reports to the MD/CEO, the Board or the RMC shall meet the CRO, without the presence of the MD & CEO, at least on a quarterly basis.

The CRO shall not have any reporting relationship with the business verticals and shall not be given any business targets. Further, there shall not be any ‘dual hatting’ i.e. the CRO shall not be given any other responsibility such as CEO, COO, CFO, Chief of the Internal Audit, etc.

In UCBs that follow committee approach in credit sanction process for high value proposals, if the CRO is one of the decision makers in the credit sanction process, he shall have voting power and all members who are part of the credit sanction process, shall individually and severally be liable for all the aspects, including risk perspective related to the credit proposal. If the CRO is not a part of the credit sanction process, his role will be limited to that of an adviser.

In UCBs which do not follow committee approach for sanction of high value credits, the CRO can only be an adviser in the sanction process and shall not have any sanctioning power.

All credit products shall be vetted by the CRO from the angle of inherent and control risks.

3. The CRO shall support the Board in establishing an integrated risk management system, capable of identifying, measuring and monitoring all types of risks on an ongoing basis. This will include developing the organisational risk appetite and a framework that will translate the Board’s strategy into clearly laid down monitorable risk limits at the aggregate and at granular levels. The CRO shall also be involved in actual monitoring and mitigation of risks.

4. It is emphasized that the primary responsibility of risk management lies with the Board. In order to focus the required level of attention on various aspects of risk management, UCBs meeting the eligibility criteria specified in para 1 above are advised to set up a Risk Management Committee (of the Board) by March 31, 2022. The Board shall decide the membership, scope of work and frequency of meeting of the Risk Management Committee.

5. UCBs meeting the prescribed criteria as on March 31, 2021 shall appoint / designate a CRO by March 31, 2022. UCBs which may fulfill the criteria at the end of the current or subsequent financial years shall appoint / designate a CRO within a period of six months from the end of the financial year concerned.

6. A copy of this circular should be placed before the Board of Directors of the bank at its next meeting.

1 As on March 31 of the previous year

2 ‘Board’ in this circular refers to Board of Directors (BoD)

3 UCBs reporting earlier to Mumbai Regional Office of the erstwhile Department of Co-operative Bank Supervision shall report to the Central Office of the Department of Supervision.

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12121&Mode=0>

**4. Reserve Bank of India (Call, Notice and Term Money Markets) Directions, 2021**

**RBI/2021-22/61FMRD.DIRD.06/14.01.001/2021-22 June 25, 2021**

*All Eligible Market Participants*

Please refer to the Master Direction – Reserve Bank of India (Call, Notice and Term Money Markets) Directions, 2021 dated April 01, 2021 (hereinafter referred as ‘Master Directions’).

2. On a review based on representations received, the prudential borrowing limits for transactions in Call, Notice and Term Money Markets have been revised. Accordingly, in Part 4 (b) of the Master Directions, Table 1 is being revised as under:

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| **Table 1: Prudential limits for outstanding borrowing transactions in Call, Notice and Term Money Markets** |
| **Sr. No.** | **Participant Category** | **Prudential Limit** |
| 1 | Scheduled Commercial Banks (including Small Finance Banks) | **Call and Notice Money:**(i) 100% of capital funds, on a daily average basis in a reporting fortnight, and(ii) 125% of capital funds on any given day.**Term Money:**(i) Internal board approved limit within the prudential limits for inter-bank liabilities. |
| 2 | Payment Banks and Regional Rural Banks | **Call, Notice and Term Money:**(i) 100% of capital funds, on a daily average basis in a reporting fortnight, and(ii) 125% of capital funds on any given day. |
| 3 | Co-operative Banks | **Call, Notice and Term Money:**(i) 2.0% of aggregate deposits as at the end of the previous financial year. |
| 4 | Primary Dealers | **Call and Notice Money:**(i) 225% of Net Owned Fund (NOF) as at the end of the previous financial year on a daily average basis in a reporting fortnight.**Term Money:**(i) 225% of Net Owned Fund (NOF) as at the end of the previous financial year. |

3. These Directions have been issued by RBI in exercise of the powers conferred under section 45W of the Reserve Bank of India Act, 1934 and of all the powers enabling it in this behalf.

4. These changes shall be applicable with immediate effect.

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12120&Mode=0>

**Appointment of Chief Risk Officer in Primary (Urban) Co-operative Banks**

**RBI/2021-2022/62 DOR.CRE(DIR).REC.26/21.04.103/2021-22 June 25, 2021**

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

With increasing size and scope of business, Primary (Urban) Co-operative Banks (UCBs) are gradually getting exposed to greater degree of risks. It is, therefore, necessary that every UCB focuses its attention on putting in place appropriate risk management mechanism commensurate with its business profile and strategic objectives. In this connection, it has been decided that all UCBs having asset size1 of ₹5000 crore or above, shall appoint a Chief Risk Officer (CRO). The Board2 must clearly define the CRO’s role and responsibilities and ensure that he/she functions independently.

2. UCBs shall strictly adhere to the following instructions in this regard:

The CRO shall be a senior official in the bank’s hierarchy and shall have adequate professional qualification / experience in the area of risk management.

The CRO shall be appointed for a fixed tenure with the approval of the Board. The CRO can be transferred / removed from the post before completion of the tenure only with the approval of the Board and such premature transfer / removal shall be reported to the concerned Regional Office3 of Department of Supervision, Reserve Bank of India.

The Board shall put in place adequate policies to safeguard the independence of the CRO. The CRO shall have direct reporting lines to MD/CEO or Board or Risk Management Committee of Board (RMC). In case the CRO reports to the MD/CEO, the Board or the RMC shall meet the CRO, without the presence of the MD & CEO, at least on a quarterly basis.

The CRO shall not have any reporting relationship with the business verticals and shall not be given any business targets. Further, there shall not be any ‘dual hatting’ i.e. the CRO shall not be given any other responsibility such as CEO, COO, CFO, Chief of the Internal Audit, etc.

In UCBs that follow committee approach in credit sanction process for high value proposals, if the CRO is one of the decision makers in the credit sanction process, he shall have voting power and all members who are part of the credit sanction process, shall individually and severally be liable for all the aspects, including risk perspective related to the credit proposal. If the CRO is not a part of the credit sanction process, his role will be limited to that of an adviser.

In UCBs which do not follow committee approach for sanction of high value credits, the CRO can only be an adviser in the sanction process and shall not have any sanctioning power.

All credit products shall be vetted by the CRO from the angle of inherent and control risks.

3. The CRO shall support the Board in establishing an integrated risk management system, capable of identifying, measuring and monitoring all types of risks on an ongoing basis. This will include developing the organisational risk appetite and a framework that will translate the Board’s strategy into clearly laid down monitorable risk limits at the aggregate and at granular levels. The CRO shall also be involved in actual monitoring and mitigation of risks.

4. It is emphasized that the primary responsibility of risk management lies with the Board. In order to focus the required level of attention on various aspects of risk management, UCBs meeting the eligibility criteria specified in para 1 above are advised to set up a Risk Management Committee (of the Board) by March 31, 2022. The Board shall decide the membership, scope of work and frequency of meeting of the Risk Management Committee.

5. UCBs meeting the prescribed criteria as on March 31, 2021 shall appoint / designate a CRO by March 31, 2022. UCBs which may fulfill the criteria at the end of the current or subsequent financial years shall appoint / designate a CRO within a period of six months from the end of the financial year concerned.

6. A copy of this circular should be placed before the Board of Directors of the bank at its next meeting.

1 As on March 31 of the previous year

2 ‘Board’ in this circular refers to Board of Directors (BoD)

3 UCBs reporting earlier to Mumbai Regional Office of the erstwhile Department of Co-operative Bank Supervision shall report to the Central Office of the Department of Supervision.

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12121&Mode=0>

**5. Investment in Entities from FATF Non-compliant Jurisdictions**

**RBI/2021-22/55CO.DPSS.AUTH.No.S190/02.27.005/2021-22 June 14, 2021**

*All entities authorised to operate Payment Systems in India*

A reference is invited to the circular DOR.CO.LIC.CC No.119/03.10.001/2020-21 dated February 12, 2021 issued by the Department of Regulation, Reserve Bank of India (RBI) on investment in NBFCs from FATF non-compliant jurisdictions. With a view to maintaining consistency, the corresponding regulations for investments in Payment Systems Operators (PSOs) are as follows.

2. The Financial Action Task Force (FATF) periodically identifies jurisdictions with weak measures to combat money laundering and terrorist financing (AML / CFT) in its following publications: i) High-Risk Jurisdictions subject to a Call for Action, and ii) Jurisdictions under Increased Monitoring. A jurisdiction whose name does not appear in these two lists is referred to as a FATF compliant jurisdiction. Investments in PSOs from FATF non-compliant jurisdictions shall not be treated at par with that from compliant jurisdictions.

3. Investors in existing PSOs holding their investments prior to the classification of the source or intermediate jurisdiction/s as FATF non-compliant, may continue with the investments or bring in additional investments as per extant regulations so as to support continuity of business in India.

4. New investors from or through non-compliant FATF jurisdictions, whether in existing PSOs or in entities seeking authorisation as PSOs, are not permitted to acquire, directly or indirectly, ‘significant influence’ as defined in the applicable accounting standards in the concerned PSO. In other words, fresh investments (directly or indirectly) from such jurisdictions, in aggregate, should account for less than 20 per cent of the voting power (including potential1 voting power) of the PSO.

5. The above instructions, as amended from time to time, shall also apply to any entity that has applied for or that intends to apply for authorisation as a PSO under the Payment and Settlement Systems Act, 2007.

6. This directive is issued under Section 18 read with Section 10(2) of the Payment and Settlement Systems Act, 2007.

\**Potential voting power could arise from instruments that are convertible into equity, other instruments with contingent voting rights, contractual arrangements, etc., that grant investors voting rights (including contingent voting rights) in the future. In such cases, it should be ensured that new investments from FATF non-compliant jurisdictions are less than both (i) 20 per cent of the existing voting powers, and (ii) 20 per cent of existing and potential voting powers assuming those potential voting rights have materialised.*

**6. 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>

**7. Preservation of CCTV recordings**

**RBI/2021-22/51 DCM(Plg).No. 51961/10.27.00/2021-22 June 8, 2021**

*The Chairman & Managing Director, Chief Executive Officers
All Banks*

Please refer to our [circular DCM (Plg) No. 1712/10.27.00/2016-17 dated December 13, 2016](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10775&Mode=0) wherein the banks were advised to preserve the CCTV recordings of operations at bank branches and currency chests for the period from November 08, 2016 to December 30, 2016, until further instructions, to facilitate coordinated and effective action by the enforcement agencies in dealing with matters relating to illegal accumulation of new currency notes.

2. In continuation to the above, keeping in view the investigations pending with law enforcement agencies, proceedings pending at various courts, you are advised to preserve the CCTV recordings of operations at bank branches and currency chests for the period from November 08, 2016 to December 30, 2016 in a proper way, till further orders.

**8. Transactions in Government securities by Foreign Portfolio Investors: Reporting**

**RBI/2021-22/50 FMRD.FMID.No.05/14.01.006/2021-22 June 7, 2021**

*All participants in Government securities market*

Over the counter (OTC) transactions in Government securities (including State Development Loans and Treasury Bills) undertaken by market participants other than on the Negotiated Dealing System – Order Matching (NDS-OM) platform are required to be reported to the ‘NDS-OM’ platform for settlement.

2. Based on the feedback received, it has been decided to provide operational flexibility for reporting of such transactions undertaken by the Foreign Portfolio Investors (FPIs) in Government securities, as under.

1. FPIs/custodian banks shall report their transactions to the NDS-OM platform within three hours after the close of trading hours for the Government securities market.
2. Information about trades undertaken by domestic counterparties with FPIs shall be disseminated by the Clearcorp Dealing Systems (India) Ltd. (CDSL) after one leg of the trade is reported on the NDS-OM platform by the domestic counterparty with a suitable qualifier to indicate that the trade is awaiting counterparty confirmation.
3. Domestic market participants, including domestic counterparties to transactions with FPIs, shall continue to report transactions to the NDS-OM platform as per extant practice.

3. Necessary operational guidance in this regard shall be issued by CDSL.

4. These Directions are issued under the powers vested in the Reserve Bank of India under Section 45W of the Reserve Bank of India Act, 1934 and are without prejudice to permissions/ approvals, if any, required under any other law.

5. The Directions shall come into effect from June 14, 2021

**9. Master Direction – Reserve Bank of India (Certificate of Deposit) Directions, 2021**

**RBI/2021-22/79 FMRD.DIRD.03/14.01.003/2021-22 June 4, 2021**

*All Eligible Market Participants*

Please refer to Paragraph 6 of the [Statement on Developmental and Regulatory Policies](https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=47226), announced as a part of the [second Bi-monthly Monetary Policy Statement for 2019-20 dated June 06, 2019](https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=47225) regarding Comprehensive Review of Money Market Directions. A reference is also invited to Paragraph 5 of the [Statement on Developmental and Regulatory Policies](https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=51684), announced as a part of the [second Bi-monthly Monetary Policy Statement for 2021-22 dated June 04, 2021](https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=51683) on ‘Facilitating Flexibility in Liquidity Management by issuers of Certificates of Deposit’.

2. The draft Directions on Certificate of Deposits were released for public comments on [December 04, 2020](https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=50761). Based on the feedback received from the market participants, the Reserve Bank of India (Certificate of Deposit) Directions, 2021 were reviewed and have since been finalised.

In exercise of the powers conferred under section 45W of the Reserve Bank of India Act, 1934 (hereinafter called the Act) read with section 45U of the Act and of all the powers enabling it in this behalf and in supersession of Section III of [FMRD.Master Direction No. 2/2016-17 dated July 07, 2016](https://www.rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=10495" \t "_blank), the Reserve Bank of India (hereinafter called the Reserve Bank) hereby issues the following Directions to all persons and agencies eligible to deal in Certificate of Deposit.

**Master Direction**

**1. Short title, scope and commencement**

**(a)** These Directions shall be called the Master Direction – Reserve Bank of India (Certificate of Deposit) Directions, 2021.

**(b)** These Directions shall come into force with effect from June 07, 2021.

**2. Definitions**

**(a)** For the purpose of these Directions, unless the context otherwise requires:

1. **“Bank”** means a banking company (including a Payment Bank and a Small Finance Bank) as defined in clause (c) of section 5 of the Banking Regulation Act, 1949 or a “regional rural bank”, a “corresponding new bank” or “State Bank of India” as defined in clauses (ja), (da) and (nc), of section 5 respectively thereof, or a “cooperative bank” as defined in clause (cci) of section 5 read with section 56 of the said Act;
2. **“Benchmark Interest Rates”** means interest rates administered by Financial Benchmark Administrators;
3. **“Certificate of Deposit” or “CD”** is a negotiable, unsecured money market instrument issued by a bank as a Usance Promissory Note against funds deposited at the bank for a maturity period upto one year;
4. **“Delivery versus Payment” or “DvP”** means a settlement mechanism which stipulates that transfer of funds from the buyer of securities is made simultaneously with the transfer of securities by the seller of securities;
5. **“Depository”** shall have the meaning assigned in section 2 (e) of the Depositories Act, 1996 (22 of 1996);
6. **“Electronic Trading Platform” or “ETP”** shall have the meaning assigned in paragraph 2 (1) (iii) of the Electronic Trading Platform (Reserve Bank) Directions, 2018 dated October 05, 2018 as modified from time to time;
7. **“Financial Benchmark Administrator” or “FBA”** means a person who controls the creation, operation and administration of financial benchmark(s) authorized under [Financial Benchmark Administrators (Reserve Bank) Directions, dated June 26, 2019](https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=47408);
8. **“Over-the-Counter markets” or “OTC markets”** refers to markets where transactions are undertaken in any manner other than on exchanges and shall include those executed on electronic trading platforms;
9. **“Person resident in India”** shall have the same meaning assigned to it in section 2 (v) of the Foreign Exchange Management Act, 1999;
10. **“Recognised stock exchanges”** shall have the meaning assigned in section 2 (f) of the Securities Contract Regulation Act, 1956;
11. **“Small Finance Bank”** means a bank licensed under section 22 of the Banking Regulation Act, 1949 and governed by the terms of the “Reserve Bank [Guidelines for Licensing of Small Finance Banks” dated November 27, 2014](https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=32614), as amended from time to time.

**(b)** Words and expressions used but not defined in these Directions shall have the meaning assigned to them in the Reserve Bank of India Act, 1934.

**3. Eligible issuers**

**(a)** Certificate of Deposits (CDs) may be issued by:

1. Scheduled Commercial Banks;
2. Regional Rural Banks; and
3. Small Finance Banks.

**(b)** CDs issued by the All India Financial Institution shall be guided by the Directions contained in [Master Circular No. FID.FIC.1/01.02.00/2015-16 issued by the Reserve Bank on Resource Raising Norms for Financial Institutions dated July 01, 2015](https://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=9874), as amended from time to time.

**4. Eligible investors**

CDs may be issued to all persons resident in India.

**5. General guidelines**

**(a) Primary issuance**

1. CDs shall be issued only in dematerialised form and held with a depository registered with Securities and Exchange Board of India.
2. CDs shall be issued in minimum denomination of ₹5 lakh and in multiples of ₹5 lakh thereafter.
3. The tenor of a CD at issuance shall not be less than seven days and shall not exceed one year.
4. CDs shall be issued on a T+1 basis where T represents the date of closure of the offer period for issuance of the CDs.

**(b) Discount/coupon rate**

CDs may be issued at a discount to the face value. CDs may also be issued on a fixed / floating rate basis provided the interest rate on the floating rate CD is reset at periodic rests agreed to at the time of issue and is linked to a benchmark published by a Financial Benchmark Administrator or approved by the Fixed Income Money Market and Derivatives Association of India (FIMMDA) for this purpose. FIMMDA shall ensure that any floating rate approved by them for this purpose is determined transparently, objectively and in arm’s length transactions.

**(c) Secondary market - trading venues and settlement**

1. CDs shall be traded either in Over-the-Counter (OTC) markets, including on Electronic Trading Platforms, or on recognised stock exchanges with the approval of the Reserve Bank.
2. The settlement cycle for OTC trades in CDs shall be T+0 or T+1.
3. All secondary market transactions in CDs shall be settled on a DvP basis through the clearing corporation of any recognized stock exchange or any other mechanism approved by the Reserve Bank.

**(d) Loans against CDs**

Banks are not allowed to grant loans against CDs, unless specifically permitted by the Reserve Bank.

**(e) Buyback of CDs**

Issuing banks are permitted to buyback CDs before maturity. Buyback of CDs shall be subject to the following conditions:

1. Buyback of CDs can be made only 7 days after the date of issue of the CD;
2. The buyback offer shall be made to all investors in a particular CD issue on identical terms and conditions. The investors shall have the option to accept or reject the buyback offer;
3. Buyback of CDs shall be at the prevailing market price; and
4. CDs bought back, partially or in full, shall be extinguished.

**(f) Market timings**

Primary issuance and secondary market trading hours shall be between 9:00 AM and 5:00 PM on a business day or as specified by the Reserve Bank from time to time.

**(g) Repayment of CD**

There will be no grace period for repayment of CDs.

**(h) Market practices and documentation**

Eligible participants and agencies in the CD market shall follow the standardised procedures and documentation which may be prescribed by FIMMDA, in consultation with the Reserve Bank, for operational flexibility and smooth functioning of the markets.

**(i) Reserve requirements**

Reserve requirements in respect of the CDs issued by banks shall be governed by relevant regulations of the Reserve Bank.

**(j) Accounting**

Accounting for CD transactions shall be as per the applicable accounting standards prescribed by the Institute of Chartered Accountants of India (ICAI) or other standard setting organisations or as specified by the relevant regulations of the Reserve Bank.

**6. Reporting requirements**

**(a) Primary issuance**

Details of primary issuance of a CD shall be reported by the issuer to the Trade Repository (TR), i.e., Financial Market Trade Reporting and Confirmation Platform (“F-TRAC”) of the Clearing Corporation of India Ltd. (CCIL) by 5.30 PM on the day of issuance or as decided by the Reserve Bank from time to time.

**(b) Secondary market transactions**

All secondary market transactions executed in OTC market and/or on the recognised stock exchanges in CDs shall be reported, with time stamp, within 15 minutes of execution (the time when price is agreed) on the F-TRAC platform by each counterparty to the transaction.

**(c) Buyback transactions**

Details of the buyback of a CD shall be reported by the issuer on the F-TRAC platform by 5.30 PM on the day of buyback.

**(d) Reporting by depositories**

The depositories shall report to the Reserve Bank, the details of the CDs held with them in the dematerialised form, in the prescribed format furnished in [Annex I](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12108&Mode=0#AN_1), at fortnightly intervals (on the 15th day and on the last day of the month) and as and when called upon to do so by the Reserve Bank.

**7. Obligation to provide information sought by the Reserve Bank**

The Reserve Bank may call for any information or statement or seek any clarification, which in the opinion of the Reserve Bank is relevant, from persons or agencies dealing in the CDs, including eligible issuers/ investors and such persons, agencies and participants shall furnish the information, statement or clarification.

**8. Dissemination of data**

The Reserve Bank or any other person authorised by the Reserve Bank, may publish any anonymised data related to transactions in primary and secondary markets in CDs.

**9. Violation of Directions**

In the event of any person or agency violating any provision of these Directions or the provisions of any other applicable law, the Reserve Bank may, in addition to taking any penal or regulatory action in accordance with law, disallow that person or agency from dealing in the CD market for a period not exceeding one month at a time, after providing reasonable opportunity to the person or agency to defend its actions, and such action will be made public by the Reserve Bank.

**10. Applicability of other laws, directions, regulations or guidelines**

Participants in CD market shall abide by the provisions of any directions, regulations or guidelines issued by any regulator or any other authority that may be applicable, in respect of issue of or investment in CDs provided that such directions, regulations or guidelines do not conflict with these Directions. In case of any conflicts, the provisions of these Directions shall prevail.

**11.** These Directions shall apply to the transactions in Certificate of Deposit entered into from the date these Directions come into force. Provisions of Section III of [FMRD.Master Direction No. 2/2016-17 dated July 07, 2016](https://www.rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=10495" \t "_blank) shall continue to be applicable to the CDs issued in accordance with the said Directions till the maturity of those CDs.

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12108&Mode=0>

**11. Payment of margins for transactions in Government Securities by Foreign Portfolio Investors**

**RBI/2021-22/48 A.P. (DIR Series) Circular No.06 June 4, 2021**

*All Authorised Persons*

Please refer to Paragraph 4 of the [Statement on Developmental and Regulatory Policies](https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=51684), issued as a part of the [second Bi-monthly Monetary Policy Statement for 2021-22 dated June 04, 2021](https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=51683) regarding placement of margins for Government securities transactions on behalf of Foreign Portfolio Investors (FPIs). Attention is also invited to the Foreign Exchange Management (Borrowing and Lending) Regulations, 2018 notified, vide [Notification No. FEMA 3(R)/2018-RB dated December 17, 2018](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11441&Mode=0), as amended from time to time, and the relevant directions issued thereunder.

2. All transactions in government securities concluded outside the recognized stock exchanges are settled on a guaranteed basis by the Clearing Corporation of India Ltd. (CCIL) which acts as the central counter party. Based on requests received, it has been decided to allow banks in India having an Authorised Dealer Category-1 licence under FEMA, 1999 to lend to FPIs in accordance with their credit risk management frameworks for the purpose of placing margins with CCIL in respect of settlement of transactions involving Government Securities (including Treasury Bills and State Development Loans) by the FPIs.

3. Necessary amendments to Foreign Exchange Management (Borrowing and Lending) Regulations, 2018 have been carried out, vide [Notification No. FEMA 3(R)2/2021-RB dated May 24, 2021](https://rbidocs.rbi.org.in/rdocs/content/pdfs/FEMA3%28R%29224052021.pdf).

4. These Directions shall be applicable with immediate effect.

5. The Directions contained in this circular have been issued under sections 10(4) and 11(1) of the Foreign Exchange Management Act, 1999 (42 of 1999) and are without prejudice to permissions/ approvals, if any, required under any other law.

**12. Investment by Foreign Portfolio Investors (FPI) in Government Securities: Medium Term Framework (MTF)**

RBI/2021-22/44
A.P. (DIR Series) Circular No. 05

May 31, 2021

To,
All Authorized Persons

Madam / Sir

Investment by Foreign Portfolio Investors (FPI) in Government Securities: Medium Term Framework (MTF)

Attention of Authorised Dealer Category-I (AD Category-I) banks is invited to Schedule 1 to the Foreign Exchange Management (Debt Instruments) Regulations, 2019 notified, vide [Notification No. FEMA. 396/2019-RB dated October 17, 2019](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12099&Mode=0), as amended from time to time and the relevant directions issued thereunder.

2. A reference is also invited to the following directions issued by the Reserve Bank:

a) [A.P. (DIR Series) Circular No. 25 dated March 30, 2020](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11849&Mode=0);

b) [Circular No. FMRD.FMSD.No.25/14.01.006/2019-20 dated March 30, 2020](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11850&Mode=0);

c) [A.P. (DIR Series) Circular No. 30 dated April 15, 2020](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11866&Mode=0); and

d) [A.P. (DIR Series) Circular No. 14 dated March 31, 2021](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12049&Mode=0).

3. Investment Limits for FY 2021-22

The limits for FPI investment in Government securities (G-secs) and State Development Loans (SDLs) shall remain unchanged at 6% and 2% respectively, of outstanding stocks of securities for FY 2021-22.

As hitherto, all investments by eligible investors in the ‘specified securities’ shall be reckoned under the Fully Accessible Route (FAR) in terms of [A.P. (DIR Series) Circular No. 25 dated March 30, 2020](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11849&Mode=0).

The allocation of incremental changes in the G-sec limit (in absolute terms) over the two sub-categories – ‘General’ and ‘Long-term’ – shall be retained at 50:50 for FY 2021-22.

The entire increase in limits for SDLs (in absolute terms) has been added to the ‘General’ sub-category of SDLs.

4. Accordingly, the revised limits (in absolute terms) for the different categories, including the limits for corporate bonds announced, vide [A.P. (DIR Series) Circular No. 14 dated March 31, 2021](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12049&Mode=0), shall be as under (Table 1):

|  |
| --- |
| Table - 1: Investment limits for FY 2021-22 |
| all figures in ₹ Crore |
|   | G-Sec General | G-Sec Long Term | SDL General | SDL Long Term | Corporate Bonds | Total Debt |
| Current FPI limits ^ | 2,34,531 | 1,03,531 | 67,630 | 7,100 | 5,41,488 | 9,54,280 |
| Revised limit for the HY Apr 2021-Sept 2021 | 2,43,914 | 1,12,914 | 76,766 | 7,100 | 5,74,263 | 10,14,957 |
| Revised limit for the HY Oct 2021-Mar 2022 | 2,53,298 | 1,22,298 | 85,902 | 7,100 | 6,07,039 | 10,75,637 |
| ^ as on March 31, 2021 |

5. AD Category – I banks may bring the contents of this circular to the notice of their constituents and customers concerned.

6. The directions contained in this circular have been issued under sections 10(4) and 11(1) of the Foreign Exchange Management Act, 1999 (42 of 1999) and are without prejudice to permissions/approval, if any, required under any other law.

Yours faithfully

(Dimple Bhandia)
Chief General Manager

13.

**Prepaid Payment Instruments (PPIs) – (i) Mandating Interoperability; (ii) Increasing the Limit to ₹2 lakh for Full-KYC PPIs; and (iii) Permitting Cash Withdrawal from Full-KYC PPIs of Non-Bank PPI Issuers**

**RBI/2021-22/40 DPSS.CO.PD.No.S-99/02.14.006/2021-22 May 19, 2021**

*All Bank and Non-Bank Prepaid Payment Instrument Issuers, System Providers and System Participants*

This has reference to paragraphs 10 and 11 of the [Statement on Developmental and Regulatory Policies dated April 07, 2021](https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=51382) wherein it was announced that (a) PPI interoperability shall be made mandatory, (b) the limit for full-KYC PPIs shall be increased from ₹1 lakh to ₹2 lakh, and (c) cash withdrawal shall be permitted using full-KYC PPIs of non-bank PPI issuers.

2. A reference is also invited to the [Master Direction DPSS.CO.PD.No.1164/02.14.006/2017-18 dated October 11, 2017](https://rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=11142) on Issuance and Operation of PPIs (as amended from time to time) and [Circular DPSS.CO.PD.No.808/02.14.006/2018-19 dated October 16, 2018](https://rbi.org.in/Scripts/NotificationUser.aspx?Id=11393&Mode=0) on PPIs – Guidelines for Interoperability.

3. Accordingly, the following are advised –

1. It shall be mandatory for PPI issuers to give the holders of full-KYC PPIs (KYC-compliant PPIs) interoperability through authorised card networks (for PPIs in the form of cards) and UPI (for PPIs in the form of electronic wallets);
2. Interoperability shall be mandatory on the acceptance side as well;
3. The interoperability shall be enabled by March 31, 2022; and
4. PPIs for Mass Transit Systems (PPI-MTS) shall remain exempted from interoperability while Gift PPI issuers have the option to offer interoperability.

4. The maximum amount outstanding in respect of full-KYC PPIs (KYC-compliant PPIs) has been increased from ₹1 lakh to ₹2 lakh. All other conditions mentioned under paragraphs 9.1 (ii) and 9.2 of the [Master Direction on PPIs dated October 11, 2017](https://rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=11142) shall continue to be applicable.

5. The feature of cash withdrawal shall be permitted in respect of full-KYC PPIs issued by non-bank PPI issuers as well. The following conditions shall, however, be applicable –

1. Maximum limit of ₹2,000 per transaction with an overall limit of ₹10,000 per month per PPI;
2. All cash withdrawal transactions performed using a card / wallet, shall be authenticated by an Additional Factor of Authentication (AFA) / PIN;
3. Any PPI issuer offering this facility shall put in place proper customer redressal mechanisms. Complaints in this regard shall fall under the ambit of the respective ombudsmen schemes and instructions on limiting liability of customers; and
4. PPI issuers shall put in place suitable cooling period for cash withdrawal upon opening the PPIs or loading / re-loading of funds into PPIs to mitigate the risk of fraudulent use of PPIs.

6. The cash withdrawal limit from Points of Sale (PoS) terminals using debit cards and open system prepaid cards issued by banks in India advised vide [circular DPSS.CO.PD.No.449/02.14.003/2015-16 dated August 27, 2015](https://rbi.org.in/Scripts/NotificationUser.aspx?Id=10004&Mode=0) has also been rationalised to ₹2,000 per transaction within an overall monthly limit of ₹10,000 across all locations (Tier 1 to 6 centres). The requirement of submission of data to RBI mentioned at paragraph 6 of the circular has been dispensed with. All other provisions shall, however, continue to be applicable.

7. The [Master Direction on Issuance and Operation of PPIs dated October 11, 2017](https://rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=11142) (as amended from time to time) is being modified to reflect the above.

8. These instructions are issued under Section 18 read with Section 10(2) of the Payment and Settlement Systems Act, 2007.

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12094&Mode=0>

**14. Sponsor Contribution to an AIF set up in Overseas Jurisdiction, including IFSCs**

**RBI/2021-22/38 A.P.(DIR Series) Circular No. 04 May 12, 2021**

*All Category-I Authorised Dealer Banks*

Attention of AD Category - I banks is invited to paragraph A.3.(e) and B.6 of [Master Direction No.15 dated January 1, 2016](https://www.rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=10637), on “Direct Investment by Residents in Joint Venture (JV) / Wholly Owned Subsidiary (WOS) Abroad”, as amended from time to time and Regulation 7 of the [Notification FEMA 120/2004-RB](https://www.rbi.org.in/Scripts/BS_FemaNotifications.aspx?Id=2126), pertaining to provisions for an Indian Party (IP) making investment/ financial commitment in an entity engaged in the financial services sector.

2. It has been decided that any sponsor contribution from a sponsor IP to an Alternative Investment Fund (AIF) set up in an overseas jurisdiction, including International Financial Services Centres (IFSCs) in India, as per the laws of the host jurisdiction, will be treated as Overseas Direct Investment (ODI). Accordingly, IP, as defined in regulation 2(k) of the Notification ibid. can set up AIF in overseas jurisdictions, including IFSCs, under the automatic route provided it complies with Regulation 7 of the [Notification FEMA 120/2004-RB](https://www.rbi.org.in/Scripts/BS_FemaNotifications.aspx?Id=2126).

3. All the other provisions under the Notification ibid. shall remain unchanged. AD Category - I banks may bring the contents of this circular to the notice of their constituents and customers concerned.

4. The [Master Direction No. 15 dated January 01, 2016](https://www.rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=10637), is being updated to reflect the changes.

5. The directions contained in this circular have been issued under section 10 (4) and 11(1) of the FEMA and are without prejudice to permissions/approvals, if any, required under any other law.

**15. Amendment to the Master Direction (MD) on KYC**

**RBI/2021-22/35 DOR.AML.REC.No.15/14.01.001/2021-22 May 10, 2021**

*The Chairpersons/ CEOs of all the Regulated Entities*

Please refer to the Master Direction (MD) on KYC dated February 25, 2016, as amended from time to time, in terms of which Regulated Entities (REs) have to undertake Customer Due Diligence (CDD) while dealing with the customers as per the process laid out therein.

2. In this regard, on a review, it has been decided to amend the MD on KYC to further leverage the Video based Customer Identification Process (V-CIP) and to simplify and rationalise the process of periodic updation of KYC. The amended provisions read as under:

I. V-CIP:

Clause (xx) of Section 3: Amended Definition of V-CIP:

Video based Customer Identification Process (V-CIP) is an alternate method of customer identification with facial recognition and customer due diligence by an authorised official of the RE by undertaking seamless, secure, live, informed-consent based audio-visual interaction with the customer to obtain identification information required for CDD purpose, and to ascertain the veracity of the information furnished by the customer through independent verification and maintaining audit trail of the process. Such processes complying with prescribed standards and procedures shall be treated on par with face-to-face CIP for the purpose of this Master Direction.

Clause (v) of Section 17:

v. Accounts, both deposit and borrowal, opened using OTP based e-KYC shall not be allowed for more than one year unless identification as per Section 16 or as per Section 18 (V-CIP) is carried out, If Aadhaar details are used under Section 18, the process shall be followed in its entirety including fresh Aadhaar OTP authentication.

Amended Section 18 on V-CIP:

REs may undertake V-CIP to carry out:

CDD in case of new customer on-boarding for individual customers, proprietor in case of proprietorship firm, authorised signatories and Beneficial Owners (BOs) in case of Legal Entity (LE) customers.

Provided that in case of CDD of a proprietorship firm, REs shall also obtain the equivalent e-document of the activity proofs with respect to the proprietorship firm, as mentioned in Section 28, apart from undertaking CDD of the proprietor.

Conversion of existing accounts opened in non-face to face mode using Aadhaar OTP based e-KYC authentication as per Section 17.

Updation/Periodic updation of KYC for eligible customers.

REs opting to undertake V-CIP, shall adhere to the following minimum standards:

(a) V-CIP Infrastructure

(i) The RE should have complied with the RBI guidelines on minimum baseline cyber security and resilience framework for banks, as updated from time to time as well as other general guidelines on IT risks. The technology infrastructure should be housed in own premises of the RE and the V-CIP connection and interaction shall necessarily originate from its own secured network domain. Any technology related outsourcing for the process should be compliant with relevant RBI guidelines.

(ii) The RE shall ensure end-to-end encryption of data between customer device and the hosting point of the V-CIP application, as per appropriate encryption standards. The customer consent should be recorded in an auditable and alteration proof manner.

(iii) The V-CIP infrastructure / application should be capable of preventing connection from IP addresses outside India or from spoofed IP addresses.

(iv) The video recordings should contain the live GPS co-ordinates (geo-tagging) of the customer undertaking the V-CIP and date-time stamp. The quality of the live video in the V-CIP shall be adequate to allow identification of the customer beyond doubt.

(v) The application shall have components with face liveness / spoof detection as well as face matching technology with high degree of accuracy, even though the ultimate responsibility of any customer identification rests with the RE. Appropriate artificial intelligence (AI) technology can be used to ensure that the V-CIP is robust.

(vi) Based on experience of detected / attempted / ‘near-miss’ cases of forged identity, the technology infrastructure including application software as well as work flows shall be regularly upgraded. Any detected case of forged identity through V-CIP shall be reported as a cyber security event under extant regulatory guidelines.

(vii) The V-CIP infrastructure shall undergo necessary tests such as Vulnerability Assessment, Penetration testing and a Security Audit to ensure its robustness and end-to-end encryption capabilities. Any critical gap reported under this process shall be mitigated before rolling out its implementation. Such tests should be conducted by suitably accredited agencies as prescribed by RBI. Such tests should also be carried out periodically in conformance to internal / regulatory guidelines.

(viii) The V-CIP application software and relevant APIs / webservices shall also undergo appropriate testing of functional, performance, maintenance strength before being used in live environment. Only after closure of any critical gap found during such tests, the application should be rolled out. Such tests shall also be carried out periodically in conformity with internal/ regulatory guidelines.

(b) V-CIP Procedure

(i) Each RE shall formulate a clear work flow and standard operating procedure for V-CIP and ensure adherence to it. The V-CIP process shall be operated only by officials of the RE specially trained for this purpose. The official should be capable to carry out liveliness check and detect any other fraudulent manipulation or suspicious conduct of the customer and act upon it.

(ii) If there is a disruption in the V-CIP procedure, the same should be aborted and a fresh session initiated.

(iii) The sequence and/or type of questions, including those indicating the liveness of the interaction, during video interactions shall be varied in order to establish that the interactions are real-time and not pre-recorded.

(iv) Any prompting, observed at end of customer shall lead to rejection of the account opening process.

(v) The fact of the V-CIP customer being an existing or new customer, or if it relates to a case rejected earlier or if the name appearing in some negative list should be factored in at appropriate stage of work flow.

(vi) The authorised official of the RE performing the V-CIP shall record audio-video as well as capture photograph of the customer present for identification and obtain the identification information using any one of the following:

OTP based Aadhaar e-KYC authentication

Offline Verification of Aadhaar for identification

KYC records downloaded from CKYCR, in accordance with Section 56, using the KYC identifier provided by the customer

Equivalent e-document of Officially Valid Documents (OVDs) including documents issued through DigiLocker

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

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

Further, in line with the prescribed period of three days for usage of Aadhaar XML file / Aadhaar QR code, REs shall ensure that the video process of the V-CIP is undertaken within three days of downloading / obtaining the identification information through CKYCR / Aadhaar authentication / equivalent e-document, if in the rare cases, the entire process cannot be completed at one go or seamlessly. However, REs shall ensure that no incremental risk is added due to this.

(vii) If the address of the customer is different from that indicated in the OVD, suitable records of the current address shall be captured, as per the existing requirement. It shall be ensured that the economic and financial profile/information submitted by the customer is also confirmed from the customer undertaking the V-CIP in a suitable manner.

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

(ix) Use of printed copy of equivalent e-document including e-PAN is not valid for the V-CIP.

(x) The authorised official of the RE shall ensure that photograph of the customer in the Aadhaar/OVD and PAN/e-PAN matches with the customer undertaking the V-CIP and the identification details in Aadhaar/OVD and PAN/e-PAN shall match with the details provided by the customer.

(xi) Assisted V-CIP shall be permissible when banks take help of Banking Correspondents (BCs) facilitating the process only at the customer end. Banks shall maintain the details of the BC assisting the customer, where services of BCs are utilized. The ultimate responsibility for customer due diligence will be with the bank.

(xii) All accounts opened through V-CIP shall be made operational only after being subject to concurrent audit, to ensure the integrity of process and its acceptability of the outcome.

(xiii) All matters not specified under the paragraph but required under other statutes such as the Information Technology (IT) Act shall be appropriately complied with by the RE.

(c) V-CIP Records and Data Management

(i) The entire data and recordings of V-CIP shall be stored in a system / systems located in India. REs shall ensure that the video recording is stored in a safe and secure manner and bears the date and time stamp that affords easy historical data search. The extant instructions on record management, as stipulated in this MD, shall also be applicable for V-CIP.

(ii) The activity log along with the credentials of the official performing the V-CIP shall be preserved.

II. Periodic updation of KYC:

Amended Section 38:

REs shall adopt a risk-based approach for periodic updation of KYC. However, periodic updation shall be carried out at least once in every two years for high risk customers, once in every eight years for medium risk customers and once in every ten years for low risk customers from the date of opening of the account / last KYC updation. Policy in this regard shall be documented as part of REs’ internal KYC policy duly approved by the Board of Directors of REs or any committee of the Board to which power has been delegated.

i. Individual Customers:

No change in KYC information: In case of no change in the KYC information, a self-declaration from the customer in this regard shall be obtained through customer’s email-id registered with the RE, customer’s mobile number registered with the RE, ATMs, digital channels (such as online banking / internet banking, mobile application of RE), letter etc.

Change in address: In case of a change only in the address details of the customer, a self-declaration of the new address shall be obtained from the customer through customer’s email-id registered with the RE, customer’s mobile number registered with the RE, ATMs, digital channels (such as online banking / internet banking, mobile application of RE), letter etc., and the declared address shall be verified through positive confirmation within two months, by means such as address verification letter, contact point verification, deliverables etc.

Further, REs, at their option, may obtain a copy of OVD or deemed OVD or the equivalent e-documents thereof, as defined in Section 3(a)(xiii), for the purpose of proof of address, declared by the customer at the time of periodic updation. Such requirement, however, shall be clearly specified by the REs in their internal KYC policy duly approved by the Board of Directors of REs or any committee of the Board to which power has been delegated.

Accounts of customers who were minor at the time of opening account on their becoming major: In case of customers for whom account was opened when they were minor, fresh photographs shall be obtained on their becoming a major and at that time it shall be ensured that CDD documents as per the current CDD standards are available with the REs. Wherever required, REs may carry out fresh KYC of such customers i.e. customers for whom account was opened when they were minor, on their becoming a major.

ii. Customers other than individuals:

No change in KYC information: In case of no change in the KYC information of the LE customer, a self-declaration in this regard shall be obtained from the LE customer through its email id registered with the RE, ATMs, digital channels (such as online banking / internet banking, mobile application of RE), letter from an official authorized by the LE in this regard, board resolution etc. Further, REs shall ensure during this process that Beneficial Ownership (BO) information available with them is accurate and shall update the same, if required, to keep it as up-to-date as possible.

Change in KYC information: In case of change in KYC information, RE shall undertake the KYC process equivalent to that applicable for on-boarding a new LE customer.

iii. Additional measures: In addition to the above, REs shall ensure that -

The KYC documents of the customer as per the current CDD standards are available with them. This is applicable even if there is no change in customer information but the documents available with the RE are not as per the current CDD standards. Further, in case the validity of the CDD documents available with the RE has expired at the time of periodic updation of KYC, RE shall undertake the KYC process equivalent to that applicable for on-boarding a new customer.

Customer’s PAN details, if available with the RE, is verified from the database of the issuing authority at the time of periodic updation of KYC.

An acknowledgment is provided to the customer mentioning the date of receipt of the relevant document(s), including self-declaration from the customer, for carrying out periodic updation. Further, it shall be ensured that the information / documents obtained from the customers at the time of periodic updation of KYC are promptly updated in the records / database of the REs and an intimation, mentioning the date of updation of KYC details, is provided to the customer.

In order to ensure customer convenience, REs may consider making available the facility of periodic updation of KYC at any branch, in terms of their internal KYC policy duly approved by the Board of Directors of REs or any committee of the Board to which power has been delegated.

REs shall adopt a risk-based approach with respect to periodic updation of KYC. Any additional and exceptional measures, which otherwise are not mandated under the above instructions, adopted by the REs such as requirement of obtaining recent photograph, requirement of physical presence of the customer, requirement of periodic updation of KYC only in the branch of the RE where account is maintained, a more frequent periodicity of KYC updation than the minimum specified periodicity etc., shall be clearly specified in the internal KYC policy duly approved by the Board of Directors of REs or any committee of the Board to which power has been delegated.

REs shall ensure that their internal KYC policy and processes on updation / periodic updation of KYC are transparent and adverse actions against the customers should be avoided, unless warranted by specific regulatory requirements.

3. Accordingly, the relevant Sections of the MD on KYC are hereby amended to reflect the aforementioned changes. The amended provisions shall come into force with immediate effect.

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12089&Mode=0>

**16. Periodic Updation of KYC – Restrictions on Account Operations for Non-compliance**

**RBI/2021-22/29 DOR. AML.REC 13/14.01.001/2021-22 May 5, 2021**

*The Chairpersons/ CEOs of all the Regulated Entities*

Please refer to Section 38 of the Master Direction on KYC dated February 25, 2016, in terms of which Regulated Entities (REs) have to carry out periodic updation of KYC of existing customers. Keeping in view the current COVID-19 related restrictions in various parts of the country, REs are advised that in respect of the customer accounts where periodic updation of KYC is due and pending as on date, no restrictions on operations of such account shall be imposed till December 31, 2021, for this reason alone, unless warranted under instructions of any regulator/ enforcement agency/court of law, etc.

Regulated entities are also advised to continue engaging with their customers for having their KYC updated in such cases.

**17. 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.

**18. 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:

|  |  |  |
| --- | --- | --- |
| **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>

19. **Corporate Governance in Banks - Appointment of Directors and Constitution of Committees of the Board**

**RBI/2021-22/24 DOR.GOV.REC.8/29.67.001/2021-22 April 26, 2021**

*To Commercial Banks (as per applicability)*

A Discussion Paper on ‘[Governance in Commercial Banks in India](https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=49937)’ was issued by the Reserve Bank on June 11, 2020 to review the framework for governance in the commercial banks. Based on the feedback received, a comprehensive review of the framework has been done, and a Master Direction on Governance will be issued in due course. In order to address a few operative aspects received through such feedback, it has been decided to issue instructions with regard to the Chair and meetings of the board, composition of certain committees of the board, age, tenure and remuneration of directors, and appointment of the whole-time directors (WTDs).

**Applicability**

2. The revised instructions would be applicable to all the Private Sector Banks including Small Finance Banks (SFBs) and wholly owned subsidiaries of Foreign Banks. In respect of State Bank of India and Nationalised Banks, these guidelines would apply to the extent the stipulations are not inconsistent with provisions of specific statutes applicable to these banks or instructions issued under the statutes. The contents of this circular must be read along with other relevant governing statutes and shall be applicable notwithstanding anything to the contrary contained in the licensing conditions, notifications, directions, regulations, guidelines, instructions, etc., issued by the Reserve Bank before the issue of this circular. The circular will not be applicable in the case of foreign banks operating as branches in India. The applicability to other commercial banks viz., Local Area Banks, Payments Banks and Regional Rural Banks will be notified separately.

**Chair and meetings of the Board**

3. The Chair of the board shall be an independent director. In the absence of the Chair of the board, the meetings of the board shall be chaired by an independent director. The quorum for the board meetings shall be one-third of the total strength of the board or three directors, whichever is higher. At least half of the directors attending the meetings of the board shall be independent directors.

**Committees of the Board**

**(a) Audit Committee of the Board (ACB)**

4. The ACB shall be constituted with only non-executive directors (NEDs). The Chair of the board shall not be a member of the ACB. The ACB shall meet with a quorum of three members. At least two-thirds of the members attending the meeting of the ACB shall be independent directors[1](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12078&Mode=0#F1). The ACB shall meet at least once in a quarter. The meetings of the ACB shall be chaired by an independent director who shall not chair any other committee of the Board. The Chair of the ACB shall not be a member of any committee of the board which has a mandate of sanctioning credit exposures. All members should have the ability to understand all financial statements as well as the notes/ reports attached thereto and at least one member shall have requisite professional expertise/ qualification in financial accounting or financial management [e.g., experience in application of accounting standards and practices, including internal controls around it].

**(b) Risk Management Committee of the Board (RMCB)**

5. The board shall constitute an RMCB with a majority of NEDs. The RMCB shall meet with a quorum of three members. At least half of the members attending the meeting of the RMCB shall be independent directors of which at least one member shall have professional expertise/ qualification in risk management[2](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12078&Mode=0#F2). Meetings of RMCB shall be chaired by an independent director who shall not be a Chair of the board or any other committee of the board. The Chair of the board may be a member of the RMCB only if he/she has the requisite risk management expertise. The RMCB shall meet at least once in each quarter.

**(c) Nomination and Remuneration Committee (NRC)**

6. The board shall constitute an NRC made up of only NEDs. The NRC shall meet with a quorum of three members. At least half of the members attending the meeting of the NRC shall be independent directors, of which one shall be a member of the RMCB. The meetings of the NRC shall be chaired by an independent director. The Chair of the board shall not chair the NRC. The meeting of NRC may be held as and when required[3](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12078&Mode=0#F3).

**Age and tenure of NEDs**

7. The upper age limit for NEDs, including the Chair of the board, shall be 75 years and after attaining the age of 75 years no person can continue in these positions[4](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12078&Mode=0#F4).

8. The total tenure of an NED, continuously or otherwise, on the board of a bank, shall not exceed eight years. After completing eight years on the board of a bank the person may be considered for re-appointment only after a minimum gap of three years.[5](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12078&Mode=0#F5) This will not preclude him/her from being appointed as a director in another bank subject to meeting the requirements.

**Remuneration of NEDs**

9. In addition to sitting fees and expenses related to attending meetings of the board and its committees as per extant statutory norms/ practices, the bank may provide for payment of compensation to NEDs in the form of a fixed remuneration commensurate with an individual director’s responsibilities and demands on time and which are considered sufficient to attract qualified competent individuals. However, such fixed remuneration for an NED, other than the Chair of the board, shall not exceed ₹20 lakh per annum[6](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12078&Mode=0#F6).

**Tenure of MD&CEO and WTDs**

10. Subject to the statutory approvals required from time to time, the post of the MD&CEO or WTD cannot be held by the same incumbent for more than 15 years. Thereafter, the individual will be eligible for re-appointment as MD&CEO or WTD in the same bank, if considered necessary and desirable by the board, after a minimum gap of three years, subject to meeting other conditions. During this three-year cooling period, the individual shall not be appointed or associated with the bank or its group entities in any capacity, either directly or indirectly.

11. It is clarified that the extant instructions on upper age limit for MD&CEO and WTDs in the private sector banks would continue and no person can continue as MD&CEO or WTD beyond the age of 70 years. Within the overall limit of 70 years, as part of their internal policy, individual bank's Boards are free to prescribe a lower retirement age for the WTDs, including the MD&CEO.

12. MD&CEO or WTD who is also a promoter/ major shareholder, cannot hold these posts for more than 12 years. However, in extraordinary circumstances, at the sole discretion of the Reserve Bank such MD&CEO or WTDs may be allowed to continue up to 15 years. While examining the matter of re-appointment of such MD&CEOs or WTDs within the 12/15 years period, the level of progress and adherence to the milestones for dilution of promoters’ shareholding in the bank shall also be factored in by the Reserve Bank.

**Transition Arrangement**

13. While the instructions shall come into effect from the date of issue of this circular, in order to enable smooth transition to the revised requirements, banks are permitted to comply with these instructions latest by October 01, 2021. Specifically:

(i) The Chair of board who is not an independent director on the date of issue of this circular shall be allowed to complete the current term as Chair as already approved by the Reserve Bank.

(ii) Banks with MD&CEOs or WTDs who have already completed 12/15 years as MD&CEO or WTD, on the date these instructions coming to effect, shall be allowed to complete their current term as already approved by the Reserve Bank.

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12078&Mode=0>

20. **Asset Classification and Income Recognition following the expiry of Covid-19 regulatory package**

**RBI/2021-22/17 DOR.STR.REC.4/21.04.048/2021-22 April 7, 2021**

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

The Hon’ble Supreme Court of India has pronounced its judgement in the matter of Small Scale Industrial Manufacturers Association vs UOI & Ors. and other connected matters on March 23, 2021. In this connection, it is advised hereunder:

**I. Refund/adjustment of ‘interest on interest’**

2. All lending institutions1 shall immediately put in place a Board-approved policy to refund/adjust the ‘interest on interest’ charged to the borrowers during the moratorium period, i.e. March 1, 2020 to August 31, 2020 in conformity with the above judgement. In order to ensure that the above judgement is implemented uniformly in letter and spirit by all lending institutions, methodology for calculation of the amount to be refunded/adjusted for different facilities shall be finalised by the Indian Banks Association (IBA) in consultation with other industry participants/bodies, which shall be adopted by all lending institutions.

3. The above reliefs shall be applicable to all borrowers, including those who had availed of working capital facilities during the moratorium period, irrespective of whether moratorium had been fully or partially availed, or not availed, in terms of the circulars DOR.No.BP.BC.47/21.04.048/2019-20 dated March 27, 2020 and DOR.No.BP.BC.71/21.04.048/2019-20 dated May 23, 2020 (“Covid-19 Regulatory Package”).

4. Lending institutions shall disclose the aggregate amount to be refunded/adjusted in respect of their borrowers based on the above reliefs in their financial statements for the year ending March 31, 2021.

**II. Asset Classification**

5. Asset classification of borrower accounts by all lending institutions following the above judgment shall continue to be governed by the extant instructions as clarified below.

In respect of accounts which were not granted any moratorium in terms of the Covid19 Regulatory Package, asset classification shall be as per the criteria laid out in the Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances dated July 1, 2015 or other relevant instructions as applicable to the specific category of lending institutions (IRAC Norms).

In respect of accounts which were granted moratorium in terms of the Covid19 Regulatory Package, the asset classification for the period from March 1, 2020 to August 31, 2020 shall be governed in terms of the circular DOR.No.BP.BC.63/21.04.048/2019-20 dated April 17, 2020, read with circular DOR.No.BP.BC.71/21.04.048/2019-20 dated May 23, 2020. For the period commencing September 1, 2020, asset classification for all such accounts shall be as per the applicable IRAC Norms.

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

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12071&Mode=0>

**21. External Commercial Borrowings (ECB) Policy – Relaxation in the period of parking of unutilised ECB proceeds in term deposits**

R**BI/2021-22/16 A.P. (DIR Series) Circular No. 01 April 07, 2021**

*All Category-I Authorised Dealer Banks*

Please refer to paragraph 12 of the Governor’s Statement on Developmental and Regulatory Policies dated April 07, 2021. In this connection, attention of Authorized Dealer Category-I (AD Category-I) banks is invited to paragraph 4.2 of the of Master Direction No.5 dated March 26, 2019, on “External Commercial Borrowings, Trade Credits and Structured Obligations”, in terms of which ECB borrowers are allowed to park ECB proceeds in term deposits with AD Category-I banks in India for a maximum period of 12 months cumulatively.

2. Based on requests from stakeholders, including Industry associations, and with a view to providing relief to the ECB borrowers affected by the Covid-19 pandemic, it has been decided to relax the above stipulation as a one-time measure. Accordingly, unutilised ECB proceeds drawn down on or before March 01, 2020 can be parked in term deposits with AD Category-I banks in India prospectively for an additional period up to March 01, 2022.

3. All other provisions of the ECB policy remain unchanged. AD Category-I banks should bring the contents of this circular to the notice of their constituents/ customers.

4. The aforesaid Master Direction No. 5 dated March 26, 2019, is being updated to reflect the changes.

5. The directions contained in this circular have been issued under section 10(4) and 11(2) of the Foreign Exchange Management Act, 1999 (42 of 1999) and are without prejudice to permissions/ approvals, if any, required under any other law.

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12070&Mode=0>

**22. Master Direction - Reserve Bank of India (Call, Notice and Term Money Markets) Directions, 2021**

**RBI/2021-22/78 FMRD.DIRD.01/14.01.001/2021-22 April 01, 2021**

*All Eligible Market Participants*

Please refer to Paragraph 6 of the [Statement on Developmental and Regulatory Policies, Reserve Bank of India](https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=47226), issued as part of the [second Bi-monthly Monetary Policy Statement for 2019-20 dated June 06, 2019](https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=47225) regarding Comprehensive Review of Money Market Directions.

The draft Directions were released for public comments on December 04, 2020. Based on the feedback received from the market participants, the Reserve Bank of India (Call, Notice and Term Money Markets) Directions, 2021 were reviewed and have since been finalised. The [Directions](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12061&Mode=0#ANN) are enclosed herewith.

In exercise of the powers conferred under section 45W of the Reserve Bank of India Act, 1934 (hereinafter called the Act) read with section 45U of the Act and of all the powers enabling it in this behalf and in supersession of Section I of the [FMRD Master Direction No. 2/2016-17 dated July 07, 2016](https://rbi.org.in/Scripts/NotificationUser.aspx?Id=10495&Mode=0), Direction No. [FMRD.DIRD.09/14.01.001/2018-19 dated October 29, 2018](https://rbi.org.in/Scripts/NotificationUser.aspx?Id=11405&Mode=0) and Direction No. [FMRD.DIRD.01/14.01.001/2020-21 dated December 04, 2020](https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12006&Mode=0), the Reserve Bank of India (hereinafter called the Reserve Bank), hereby issues the following Directions to all persons and agencies eligible to deal in Call, Notice and Term Money Markets.

**1. Short title and commencement**

**(a)** These Directions shall be called the Master Direction- Reserve Bank of India (Call, Notice and Term Money Markets) Directions, 2021.

**(b)** These Directions shall come into force with effect from April 05, 2021.

**2. Definitions**

**(a)** For the purpose of these Directions, unless the context otherwise requires:

1. **“Bank”** means a banking company (including a Payment Bank and a Small Finance Bank) as defined in clause (c) of section 5 of the Banking Regulation Act, 1949 or a “regional rural bank”, a “corresponding new bank” or “State Bank of India” as defined in clauses (ja), (da) and (nc), of section 5 respectively thereof, or a “cooperative bank” as defined in clause (cci) of section 5 read with section 56 of the said Act;
2. **“Call Money”** means borrowing or lending in unsecured funds on overnight basis;
3. **“Capital Funds”** shall have the meaning assigned in the applicable capital regulations issued by the Department of Regulation of the Reserve Bank as amended from time to time and shall be calculated as per the latest audited balance sheet;
4. **“Electronic Trading Platform” or “ETP”** shall have the meaning assigned in paragraph 2 (1) (iii) of [the Electronic Trading Platform (Reserve Bank) Directions, 2018 dated October 05, 2018](https://rbi.org.in/Scripts/NotificationUser.aspx?Id=11385&Mode=0), as modified from time to time;
5. **“Exchange”** shall mean ‘recognised stock exchange’ and shall have the same meaning as assigned to in Section 2 (f) of the Securities Contract Regulation Act, 1956.
6. **“Fortnight”** shall have the meaning assigned to it under section 42 of the Reserve Bank of India Act, 1934;
7. **“Negotiated Dealing System-CALL” or “NDS-CALL”** is the electronic trading platform for execution and reporting of transactions in Call, Notice and Term Money Markets;
8. **“Net Owned Fund”** shall have the meaning assigned to it under the Explanation to section 45-IA of the Reserve Bank of India Act, 1934;
9. **“Notice Money”** means borrowing or lending in unsecured funds for tenors up to and inclusive of 14 days excluding overnight borrowing or lending;
10. **“Over-the-Counter markets” or “OTC markets”** refers to markets where transactions are undertaken in any manner other than on exchanges and shall include those executed on electronic trading platforms;
11. **“Payment Bank”** means a bank licensed under section 22 of the Banking Regulation Act, 1949 and governed by the terms of the “Reserve Bank [Guidelines for Licensing of Payments Banks” dated November 27, 2014](https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=32615), as amended from time to time;
12. **“Primary Dealer”** means a Non-Banking Financial Company that holds a letter of authorisation issued by the Reserve Bank to act as a Primary Dealer, in terms of the "Guidelines for Primary Dealer in Government Securities Market" dated March 29, 1995, as amended from time to time;
13. **“Small Finance Bank”** means a bank licensed under section 22 of the Banking Regulation Act, 1949 and governed by the terms of the “Reserve Bank [Guidelines for Licensing of Small Finance Banks” dated November 27, 2014](https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=32614), as amended from time to time;
14. **“Term Money”** means borrowing or lending in unsecured funds for periods exceeding 14 days and up to one year.

**(b)** Words and expressions used but not defined in these Directions shall have the meaning assigned to them in the Reserve Bank of India Act, 1934.

**3. Participants**

The following entities shall be eligible to participate in the Call, Notice and Term Money Markets, both as borrowers and lenders:

1. Scheduled Commercial Banks (excluding Local Area Banks);
2. Payment Banks;
3. Small Finance Banks;
4. Regional Rural Banks;
5. State Co-operative Banks, District Central Co-operative Banks and Urban Co-operative Banks (hereinafter Co-operative Banks); and
6. Primary Dealers.

**4. Prudential limits**

**(a)** Prudential limits in respect of outstanding lending transactions in the Call, Notice and Term Money Markets shall be decided by the participants with the approval of their Board within the regulatory framework of the exposure norms prescribed by the Department of Regulation of the Reserve Bank for the eligible participant concerned.

**(b)** Prudential limits for outstanding borrowing transactions in the Call, Notice and Term Money Markets are set out in [Table 1](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12061&Mode=0#T1).

|  |
| --- |
| **Table 1: Prudential limits for outstanding borrowing transactions in Call, Notice and Term Money Markets** |
| **Sr. No.** | **Participant category** | **Prudential limit** |
| 1. | Scheduled Commercial Banks, Payment Banks, Small Finance Banks andRegional Rural Banks | (i) 100% of capital funds, on a daily average basis in a reporting fortnight, and(ii) 125% of capital funds on any given day. |
| 2. | Co-operative Banks | (i) 2.0% of aggregate deposits as at the end of the previous financial year. |
| 3. | Primary Dealers | (i) 225% of Net Owned Fund (NOF) as at the end of previous financial year. |

**(c)** Eligible participants may, with the approval of their respective Board of Directors (or equivalent bodies), fix separate internal limits within the prudential limits for borrowing and lending in the Call, Notice and Term Money Markets. The internal limits so arrived at by the eligible participants shall be conveyed to the Clearcorp Dealing System Ltd., or any other NDS-CALL system operator authorised by the Reserve Bank for setting of limits in the NDS-CALL platform, under advice to the Financial Markets Regulation Department (FMRD) of the Reserve Bank through e-mail.

**5. General guidelines**

**(a) Interest rates:** Eligible participants are free to decide on interest rates in the Call, Notice and Term Money Markets.

**(b) Trading venues:** Call, Notice and Term Money transactions shall be executed in Over-the-Counter markets, including on the NDS-CALL platform or any other Electronic Trading Platform authorised for the purpose by the Reserve Bank.

**(c) Market timings:** The market timings for Call, Notice and Term Money transactions shall be from 9:00 AM to 5:00 PM on each business day or as specified by the Reserve Bank from time to time.

**(d) Market practices and documentation:** Eligible participants shall follow the standard market practices, methodologies and documentation prescribed by Fixed Income Money Market and Derivatives Association of India (FIMMDA), in consultation with the Reserve Bank, from time to time.

**6. Cancellation and termination**

**(a)** A Call, Notice or Term Money transaction shall, normally, not be cancelled.

**(b)** A Notice or Term Money transaction can be terminated before maturity at a mutually agreed price.

**(c)** Any cancellation or termination of a Call, Notice or Term Money transaction shall be reported as set out in paragraph 7 of these Directions.

**7. Reporting requirements**

**(a)** All Call, Notice or Term Money transactions, other than those executed on NDS-CALL platform, shall be reported to the NDS-CALL platform within 15 minutes of execution (the time when interest rate is agreed), by both counterparties to the transaction or by the Electronic Trading Platform concerned, as the case may be. For this purpose, all eligible participants in the Call, Notice and Term Money Markets shall obtain membership of NDS-CALL platform. Eligible participants who are not members of NDS-CALL platform shall obtain such membership within a period of six months from the date of these Directions.

**(b)** A Call, Notice or Term Money transaction executed on the NDS-CALL platform need not be reported separately.

**(c)** Any cancellation or termination of a Call, Notice and Term Money transaction shall be reported on the NDS-CALL platform within 15 minutes of cancellation by each counterparty to the transaction or by the Electronic Trading Platform concerned, as the case may be.

**(d)** Any misreporting or multiple reporting of the same OTC markets deal by a counterparty shall be immediately brought to the notice of the Clearcorp Dealing System Ltd., or any other NDS-CALL system operator authorised by the Reserve Bank and also to the Financial Markets Regulation Department, Reserve Bank of India, Central Office, Fort, Mumbai, through email.

**8. Obligation to provide information sought by the Reserve Bank:** The Reserve Bank may call for any information or statement or seek any clarification, which in the opinion of the Reserve Bank is relevant, from persons or agencies dealing in the Call, Notice and Term Money Markets, including eligible participants, and such persons, agencies and participants shall furnish such information, statement or clarification.

**9. Dissemination of data:** The Reserve Bank or any other person authorised by the Reserve Bank, may publish any anonymised data related to transactions in Call, Notice and Term Money Markets.

**10. Violation of Directions:** In the event of any person or agency violating any provision of these Directions or the provisions of any other applicable law, the Reserve Bank may, in addition to taking any penal or regulatory action in accordance with law, disallow that person or agency from dealing in the Call, Notice and Term Money Markets for a period not exceeding one month at a time, after providing reasonable opportunity to the person or agency to defend its actions, and such action may be made public by the Reserve Bank.

**11.** These Directions shall apply to Call, Notice and Term Money transactions entered into from the date these Directions come into force. Provisions of Section I of the [FMRD Master Direction No. 2/2016-17 dated July 07, 2016](https://rbi.org.in/Scripts/NotificationUser.aspx?Id=10495&Mode=0); Direction No. [FMRD.DIRD.09/14.01.001/2018-19 dated October 29, 2018](https://rbi.org.in/Scripts/NotificationUser.aspx?Id=11405&Mode=0) and Direction No. [FMRD.DIRD.01/14.01.001/2020-21 dated December 04, 2020](https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12006&Mode=0), shall continue to be applicable to transactions undertaken in accordance with the said Directions till the expiry of those contracts.

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12061&Mode=0>

**23. Investment by Foreign Portfolio Investors (FPI): Investment limits**

**RBI/2020-21/116 A.P. (DIR Series) Circular No. 14 March 31, 2021**

*All Authorized Persons*

Attention of Authorised Dealer Category-I (AD Category-I) banks is invited to Schedule 1 to the Foreign Exchange Management (Debt Instruments) Regulations, 2019 notified vide [Notification No. FEMA.396/2019-RB dated October 17, 2019](https://rbidocs.rbi.org.in/rdocs/content/pdfs/396FEMA17102019.pdf), as amended from time to time and the relevant Directions issued thereunder. A reference is also invited to [A.P. (DIR Series) Circular No. 30 dated April 15, 2020](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11866&Mode=0) on the captioned subject.

**2. Investment Limits for FY 2021-22**

a. The limits for FPI investment in Corporate bonds shall remain unchanged at 15% of outstanding stock of securities for FY 2021-22. Accordingly, the revised limits for FPI investment in corporate bonds, after rounding off, shall be as under ([Table - 1](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12049&Mode=0#TA1))

|  |
| --- |
| **Table - 1: Limits for FPI investment in Corporate bonds for FY 2021-22** |
| (₹ Crore) |
| Current FPI limit | 5,41,488 |
| Revised limit for HY Apr 2021-Sep 2021 | 5,74,263 |
| Revised limit for HY Oct 2021-Mar 2022 | 6,07,039 |

b. The revised limits for FPI investment in Central Government securities (G-secs) and State Development Loans (SDLs) for FY 2021-22 will be advised separately. Till such announcement, the current limits (as in [Table - 2](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12049&Mode=0#TA2)), shall continue to be applicable.

|  |
| --- |
| **Table - 2: Limits for FPI investments in G-Sec and SDL** |
| (₹ Crore) |
|  | **G-Sec General** | **G-Sec Long Term** | **SDL General** | **SDL Long Term** |
| FPI investment limits | 2,34,531 | 1,03,531 | 67,630 | 7,100 |

3. AD Category – I banks may bring the contents of this circular to the notice of their constituents and customers concerned.

4. The Directions contained in this circular have been issued under sections 10(4) and 11(1) of the Foreign Exchange Management Act, 1999 (42 of 1999) and are without prejudice to permissions/approval, if any, required under any other law.

**24. Bilateral Netting of Qualified Financial Contracts- Amendments to Prudential Guidelines**

**RBI/2020-21/115 DOR.CAP.51/21.06.201/2020-21 March 30, 2021**

*All Scheduled Commercial Banks (excluding Regional Rural Banks)*

The Bilateral Netting of Qualified Financial Contracts Act, 2020 (hereafter referred to as “the Act”), has been notified by the Government of India vide Gazette Notification No. S.O. 3463(E) dated October 1, 2020. The Act provides a legal framework for enforceability of bilateral netting of qualified financial contracts (QFC).

2. In exercise of the powers conferred by section 4(a) of the Act, the Reserve Bank, vide Notification no. FMRD.DIRD.2/14.03.043/2020-21 dated March 9, 2021, has since notified (a) “derivatives”; and (b) “repo” and “reverse repo” transactions as defined under Section 45(U) of Chapter III-D of the Reserve Bank of India Act, 1934 as a QFC.

3. Accordingly, select instructions contained in the following circulars have been modified/ amended appropriately:

a) [Master Circular DBR.No.BP.BC.1/21.06.201/2015-16 dated July 1, 2015](https://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=9859) on ‘Basel III Capital Regulations’ as provided in [Annex 1](https://rbidocs.rbi.org.in/rdocs/content/pdfs/BILA30032021_A1.pdf);

b) [Circular DBR.BP.BC.No.106/21.04.098/2017-18 dated May 17, 2018](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11278&Mode=0) on ‘Basel III Framework on Liquidity Standards – Net Stable Funding Ratio (NSFR) – Final Guidelines’ as provided in [Annex 2](https://rbidocs.rbi.org.in/rdocs/content/pdfs/BILA30032021_A2.pdf);

c) [Master Circular DBR.No.BP.BC.2/21.04.048/2015-16 dated July 1, 2015](https://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=9908) on ‘Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances’ as provided in [Annex 3](https://rbidocs.rbi.org.in/rdocs/content/pdfs/BILA30032021_A3.pdf); and

d) [Master Circular DBR.No.BP.BC.4./21.06.001/2015-16 dated July 1, 2015](https://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=9893) on Prudential Guidelines on Capital Adequacy and Market Discipline-New Capital Adequacy Framework (NCAF) as provided in [Annex 4](https://rbidocs.rbi.org.in/rdocs/content/pdfs/BILA30032021_A4.pdf).

The revised instructions come into force with immediate effect.

**25. FETERS – Cards: Monthly Reporting**

**RBI/2020-21/113 A.P. (DIR Series) Circular No.13 March 25, 2021**

*All Category-I Authorised Dealer Banks*

Attention of Authorised Dealers (Category I) is invited to [A.P. (DIR Series) Circular No. 50 dated February 11, 2016](https://rbi.org.in/Scripts/NotificationUser.aspx?Id=10276&Mode=0) on compilation of R-Returns for reporting under the Foreign Exchange Transactions Electronic Reporting System (FETERS). It has been decided to collect more details of international transactions using credit card / debit card / unified payment interface (UPI) along with their economic classification (merchant category code – MCC) through a new return called ‘FETERS-Cards’, using the same web-portal ([https://bop.rbi.org.in](https://bop.rbi.org.in/)).

2. Nodal offices of Authorised Dealers (ADs) may submit FETERS-Cards details on the web-portal in the following manner:

A. For transactions through credit card / debit card / UPI:

1. Sale of forex by AD towards international transaction made by Indian resident (to be reported by the card issuing / transaction originating AD); and
2. Purchase of forex by AD under transaction by foreign resident with Indian resident (to be reported by merchant acquirer AD).

B. The information shall be submitted in the following fixed format (details given in [Annex](https://rbidocs.rbi.org.in/rdocs/content/pdfs/NT113_25032021.pdf)):

1. For transactions using credit/debit card:

MCC X Country X Currency X Amount (Payment/Refund) X Card Status (Present /Not present)
2. For transactions through UPI:

MCC X Country X Currency X Amount (Payment/Refund) X QR Code Scan (Yes/No)

3. AD Banks need to report all card transactions (e.g., through PoS terminals / e-commerce (online purchase) / for transferring funds to bank accounts).

4. Data submission by ADs:

1. ADs shall submit the FETERS-Cards data on the web-portal ([https://bop.rbi.org.in](https://bop.rbi.org.in/)) by using the RBI-provided login-name and password, within seven working days from the last date of the month for which data are being reported. The web-portal provides detailed guidance and help material.
2. FETERS-Cards reporting will be implemented for the transactions taking place from April 1, 2021. Hence, details of the transactions in April 2021 may be reported in the first week of May 2021.
3. In case of any clarifications, banks may send their queries through e-mail or contact by phone at 022-26578416 or 022-26571154 (direct).

5. The directions contained in this circular have been issued under Sections 10(4) and 11(2) of the Foreign Exchange Management Act, 1999 (42 of 1999) and are without prejudice to permissions / approvals, if any, required under any other law.

**26. Amendment to Master Direction (MD) on KYC – Procedure for Implementation of Section 51A of the Unlawful Activities (Prevention) Act, 1967**

**RBI/2020-21/110 DOR.AML.REC.48/14.01.001/2020-21 March 23, 2021**

*The Chairpersons/ CEOs of all the Regulated Entities*

Please refer to Chapter IX (‘Requirements/obligations under International Agreements Communications from International Agencies’) of the [Master Direction on KYC dated February 25, 2016](https://rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=11566). In terms of instructions contained therein, Regulated Entities (REs) have been instructed, inter alia, that the procedure laid down in the Unlawful Activities (Prevention) Act, 1967, (UAPA) Order dated March 14, 2019, as provided in the Annex-II to the Master Direction, shall be strictly followed and meticulous compliance with the order issued by the Government shall be ensured.

2. In this regard, Ministry of Home Affairs (MHA) has issued a revised order dated February 2, 2021, in supersession of the earlier order dated March 14, 2019.

3. In line with the revised order dated February 2, 2021, issued by the MHA, Sections 52 and 54 of the [Master Direction on KYC dated February 25, 2016](https://rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=11566), are hereby amended.

4. Further, Section 54 has been amended to include the following:

“The list of Nodal Officers for UAPA is available on the website of Ministry of Home Affairs.”

5. These changes in the Master Direction shall come into force with immediate effect.

**27. Large Exposures Framework – Deferment of applicability of limits on non-centrally cleared derivatives exposures**

**RBI/2020-21/109 DOR.No.CRE.BC.47/21.01.003/2020-21 March 23, 2021**

*All Scheduled Commercial Banks (Excluding Small Finance Banks, Payments Banks, Local Area Banks and Regional Rural Banks)*

Please refer to [circular No.DOR.No.BP.BC.43/21.01.003/2019-20 dated March 23, 2020](https://rbi.org.in/Scripts/NotificationUser.aspx?Id=11827&Mode=0) on Large Exposures Framework (LEF).

2. On a review it has been decided that non-centrally cleared derivatives exposures will continue to be outside the purview of exposure limits till September 30, 2021.

**28. Data Format for Furnishing of Credit Information to Credit Information Companies and other Regulatory Measures**

**RBI/2020-21/106 DoR.FIN.REC.46/20.16.056/2020-21 March 12, 2021**

*All Commercial Banks (including Small Finance Banks, Local Area Banks and Regional Rural Banks) excluding Payment Banks, All Primary (Urban) Co-operative Banks/State Co-operative Banks/ District Central Co-operative Banks, All-India Financial Institutions (Exim Bank, NABARD, NHB and SIDBI), All Non-Banking Financial Companies (including Housing Finance Companies) All Credit Information Companies*

Please refer to our [circular DBOD.No.CID.BC.127/20.16.056/2013-14 dated June 27, 2014](https://rbi.org.in/Scripts/NotificationUser.aspx?Id=8968&Mode=0) inter alia setting out a Uniform Credit Reporting Format for the purpose of reporting credit information to the Credit Information Companies (CICs).

2. The Uniform Credit Reporting Format has two Annexes. The Annex-I contains two formats for credit reporting, viz., Consumer Bureau and Commercial Bureau, whereas Annex-II contains credit reporting format for Micro Finance Institution (MFI) segment.

3. It has now been decided to modify the aforesaid three formats as under:

(i) **Consumer Bureau:** The label of the field ‘Written off and Settled status’ is modified as ‘Credit Facility Status’ and it will also have a new catalogue value, viz., ‘Restructured due to COVID-19’.

(ii) **Commercial Bureau:** The existing field ‘Major reasons for restructuring’ will have a new catalogue value, viz., ‘Restructured due to COVID-19’.

(iii) **MFI Bureau:** The existing field ‘Account status’ will have a new catalogue value, viz., ‘Restructured due to COVID-19’.

4. The modifications are being made to enable banks/AIFIs/NBFCs to report the information relating to restructured loans to CICs as envisaged in [circular DOR.No.BP.BC.3/21.04.048/2020-21 dated August 6, 2020](https://rbi.org.in/Scripts/NotificationUser.aspx?Id=11941&Mode=0), on the Resolution Framework for COVID-19 related stress.

5. Banks/AIFIs/NBFCs should make necessary modification to their systems and commence reporting the above information to CICs within two months from the date of this circular. CICs shall make necessary modifications to their system to reflect the above changes.

**29. Investment by Foreign Portfolio Investors (FPI) in Defaulted Bonds – Relaxations**

**RBI/2020-21/105 A.P. (DIR Series) Circular No. 12 February 26, 2021**

*All Authorised persons*

Attention of Authorised Dealer Category-I (AD Category-I) banks is invited to Foreign Exchange Management (Debt Instruments) Regulations, 2019 notified vide [Notification No. FEMA. 396/2019-RB dated October 17, 2019](https://rbidocs.rbi.org.in/rdocs/content/pdfs/396FEMA17102019.pdf), as amended from time to time, and the relevant directions issued thereunder. A reference is also invited to [A.P. (DIR Series) Circular No. 31 dated November 26, 2015](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10147&Mode=0) wherein FPIs were permitted to acquire NCDs/bonds, which are under default, either fully or partly, in the repayment of principal on maturity or principal instalment in the case of amortising bond, and to [A.P. (DIR Series) Circular No. 31 dated June 15, 2018](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11303&Mode=0) (hereinafter, Directions), as amended from time to time.

2. Attention of AD Category-I banks is also invited to para 12 of [Statement on Developmental and Regulatory Policies dated February 05, 2021](https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=51078), wherein it was announced that FPI investment in defaulted corporate bonds will be exempted from the short-term limit and the minimum residual maturity requirement under the MTF.

3. Currently, FPI investments in corporate bonds are subject to a minimum residual maturity requirement, short-term investment limit (paragraph 4 (b)(ii)) and the investor limit (paragraph 4(f)(i)) in terms of the Directions. However, FPI investments in security receipts and debt instruments issued by Asset Reconstruction Companies and debt instruments issued by an entity under the Corporate Insolvency Resolution Process as per the resolution plan approved by the National Company Law Tribunal under the Insolvency and Bankruptcy Code, 2016 are exempt from these requirements. It has now been decided to exempt investments by FPI in NCDs/bonds which are under default, either fully or partly, in the repayment of principal on maturity or principal instalment in the case of amortising bond from the aforesaid requirements.

4. The updated [Directions](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11303&Mode=0) are attached.

5. These directions are issued under sections 10(4) and 11(1) of the Foreign Exchange Management Act, 1999 (42 of 1999) and are without prejudice to permissions/ approvals, if any, required under any other law.

Updated MD: <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11303&Mode=0>

30. **Large Exposures Framework – Exemptions**

**RBI/2020-21/104 DOR.No.CRE.BC.45/21.01.003/2020-21 February 24, 2021**

*All Scheduled Commercial Banks (Excluding Small Finance Banks, Payments Banks, Local Area Banks and Regional Rural Banks)*

Please refer to [circular No.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)

2. Paragraph 3 of the Annex to the above circular specifies the exposures that are exempt from the LEF. On a review, it has been decided to further exempt the following exposures from the LEF:

• Exposures to foreign sovereigns or their central banks that are:

1. subject to a 0% risk weight under Table 2 of paragraph 5.3.1 of the [Master Circular – Basel III Capital Regulations dated July 1, 2015](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=9859&Mode=0), as modified vide circular dated October 8, 2015; and,
2. denominated in the domestic currency of that sovereign and met out of resources of the same currency.

**31. Master Direction on Digital Payment Security Controls**

**RBI/2020-21/74 DoS.CO.CSITE.SEC.No.1852/31.01.015/2020-21 February 18, 2021**

*The Chairman/ Managing Director/ Chief Executive Officer, All Scheduled Commercial Banks excluding RRBs/Small Finance Banks/Payments Banks/ Credit Card issuing NBFCs.*

Please refer to para II (7) of the Statement on Developmental and Regulatory Policies of the Bi-monthly Monetary Policy Statement for 2020-21 dated December 4, 2020 ([extract given below](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12032&Mode=0#S1)). The [Master Direction](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12032&Mode=0#MD) provides necessary guidelines for the regulated entities to set up a robust governance structure and implement common minimum standards of security controls for digital payment products and services.

Going by the pre-eminent role being played by digital payment systems in India, RBI gives highest importance to the security controls around it. Now it is proposed to issue Reserve Bank of India (Digital Payment Security Controls) Directions 2020, for regulated entities to set up a robust governance structure for such systems and implement common minimum standards of security controls for channels like internet, mobile banking, card payments, among others. While the guidelines will be technology and platform agnostic, it will create an enhanced and enabling environment for customers to use digital payment products in more safe and secure manner. Necessary guidelines will be issued separately.

**INTRODUCTION**

In exercise of the powers conferred by the Banking Regulation Act, 1949, the Reserve Bank of India Act, 1934 and Payment and Settlement Systems Act, 2007, the Reserve Bank, being satisfied that it is necessary and expedient in the public interest so to do, hereby, issues the directions hereinafter specified.

**CHAPTER – I**

**PRELIMINARY**

**1. Short Title and Commencement**

1. These directions shall be called the Reserve Bank of India (Digital Payment Security Controls) directions, 2021.
2. These directions shall come into effect six months from the day they are placed on the official website of the Reserve Bank of India (RBI). However, in respect of instructions already issued either by Department of Payment and Settlement Systems (DPSS), Department of Regulation (DoR) or Department of Supervision (DoS) of RBI including those to select Regulated Entities (REs), by way of circular or advisory, the timeline would be with immediate effect or as per the timelines already prescribed.

**2. Applicability**

The provisions of these directions shall apply to the following Regulated Entities (REs):

1. Scheduled Commercial Banks (excluding Regional Rural Banks);
2. Small Finance Banks;
3. Payments Banks; and
4. Credit card issuing NBFCs.

**3. Definitions**

All expressions unless defined herein shall have the same meaning as have been assigned to them under the Banking Regulation Act, 1949, Reserve Bank of India Act, 1934, Payment and Settlement Systems Act, 2007 or Information Technology Act, 2000/ Information Technology (Amendment) Act, 2008 and Rules made thereunder, any statutory modification or re-enactment thereto or as used in commercial parlance, as the case may be.

**CHAPTER – II**

**GENERAL CONTROLS**

**Governance and Management of Security Risks**

4. REs shall formulate a policy for digital payment products and services with the approval of their Board. The contours of the policy, while discussing the parameters of any “new product” including its alignment with the overall business strategy and inherent risk of the product, risk management/ mitigation measures, compliance with regulatory instructions, customer experience, etc., should explicitly discuss about payment security requirements from Functionality, Security and Performance (FSP) angles such as:

1. Necessary controls to protect the confidentiality of customer data and integrity of data and processes associated with the digital product/ services offered;
2. Availability of requisite infrastructure e.g. human resources, technology, etc. with necessary back up;
3. Assurance that the payment product is built in a secure manner offering robust performance ensuring safety, consistency and rolled out after necessary testing for achieving desired FSP;
4. Capacity building and expansion with scalability (to meet the growth for efficient transaction processing);
5. Minimal customer service disruption with high availability of systems/ channels (to have minimal technical declines);
6. Efficient and effective dispute resolution mechanism and handling of customer grievance; and
7. Adequate and appropriate review mechanism followed by swift corrective action, in case any one of the above requirements is hampered or having high potential to get hampered.

The Board and Senior Management shall be responsible for implementation of this policy. The policy shall be reviewed periodically, at least on a yearly basis. REs may formulate this policy separately for its different digital products or include the same as part of their overall product policy. Further, the policy document should require that every digital payment product/ services offered addresses the mechanics, clear definition of starting point, critical intermittent stages/ points and end point in the digital payment cycle, security aspects, validations till the digital payment is settled, clear pictorial representation of digital path and exception handling. In addition, signing off of the above requirements, mechanism for carrying out User Acceptance Tests (UAT) in multiple stages before roll out, sign off from multiple stakeholders (post UAT) and data archival requirements shall also be taken in to account. The need for an external assessment of the entire process including the logic, build and security aspects of the application(s) supporting the digital product should be clearly articulated.

5. REs shall incorporate appropriate processes into their governance and risk management programs for identifying, analysing, monitoring and managing the specific risks, including compliance risk and fraud risk, associated with the portfolio of digital payment products and services on a continual basis and in a holistic manner. The Board/ Senior Management of REs shall have appropriate performance monitoring systems/ key performance indicators for assessing whether the product or service offered through digital payment channels meet operational and security norms.

6. As part of this process, the REs shall define product-level limits on the level of acceptable security risk, document specific security objectives and performance criteria including quantitative benchmarks for evaluating the success of the security built into the digital payment product or service, periodically compare actual results with projections and qualitative benchmarks to detect and address adverse trends or concerns in a timely manner and modify the business plan/ strategy involving the product, when appropriate, based on the security performance of the product or service.

7. REs shall have trained resources with necessary expertise to manage the digital payment infrastructure. Wherever the REs are dependent on third party service providers, adequate oversight and controls for monitoring the activities of the third party personnel, in line with RBI guidelines on outsourcing, shall be put in place.

8. REs shall conduct risk assessments with regard to the safety and security of digital payment products and associated processes and services as well as suitability and appropriateness of the same vis-a-vis the target users, both prior to establishing the service(s) and regularly thereafter. The risk assessment should take into account –

1. The technology stack and solutions used;
2. Known vulnerabilities at each of the touchpoints of the digital product and the remedial action taken by the entity;
3. Dependence on third party service providers and oversight over such providers;
4. Risk arising out of integration of digital payment platform with other systems both internal and external to the RE, including core systems and systems of payment systems operators, etc.;
5. The customer experience, convenience and technology adoption required to use such products;
6. Reconciliation process;
7. Interoperability aspects;
8. Data storage, security and privacy protection as per extant laws/ instructions;
9. Operational risk including fraud risk;
10. Business continuity and service availability;
11. Compliance with extant cyber security requirements; and
12. Compatibility aspects.

Such assessment shall cover the surrounding ecosystem as well. The assessment of risks shall address the need to protect and secure payment data[1](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12032&Mode=0#F1) and evaluate the resilience of systems. The internal Risk and Control Self-Assessment (RCSA) exercise shall cover the risks (inherent) & controls vis-à-vis the probability and impact of threats to arrive at residual risk. In such an exercise, it is imperative for REs to maintain database of all systems and applications storing customer data in the payment ecosystem and compliance with applicable PCI standards in each of the systems (notwithstanding mandatory requirements of certification/ standard accreditation).

9. REs shall evaluate the risks associated with the chosen technology platforms, application architecture, both on the server and client side. Further, REs should undertake a review of the risk scenarios and existing security measures based on incidents affecting their services, before any major change to the infrastructure or procedures is made or, when, any new threats are identified through risk monitoring activities. Further, unused or unwanted features of the platform should be closely controlled to minimise risk.

10. REs shall develop sound internal control systems and take into account the operational risk before offering digital payment products and related services. This would include ensuring that adequate safeguards are in place to protect integrity of data, customer confidentiality and security of data.

11. REs shall ensure that the digital payment architecture is robust and scalable, commensurate with the transaction volumes and customer growth. The IT strategy of the RE shall ensure that a robust capacity management plan is in place to meet evolving demand. REs shall also put in place review mechanism of IT/ IT Security architecture and technology platform overhaul on a periodic basis based on Board-approved policy.

12. REs shall have necessary capacity, systems and procedures in place to periodically test the backed-up data, application pertaining to digital products to ensure recovery without loss of transactions or audit-trails. These facilities should be tested at least on a half-yearly basis for digital payment products and services.

**Other Generic Security Controls**

13. The communication protocol in the digital payment channels (especially over Internet) shall adhere to a secure standard. An appropriate level of encryption and security shall be implemented in the digital payment ecosystem.

14. Web applications providing the digital payment products and services should not store sensitive information in HTML hidden fields, cookies, or any other client-side storage to avoid any compromise in the integrity of the data.

15. REs shall implement Web Application Firewall (WAF) solution and DDoS mitigation techniques to secure the digital payment products and services offered over Internet.

16. The key length (for symmetric/ asymmetric encryption, hashing), algorithms (for encryption, signing, exchange of keys, creation of message digest, random number generators), cipher suites, digital certificates and applicable protocols used in transmission channels, processing of data, authentication purpose, shall be strong, adopting internationally accepted and published standards that are not deprecated/ demonstrated to be insecure/ vulnerable and the configurations involved in implementing such controls are in general, compliant with extant instructions and the law of the land.

17. REs shall renew their digital certificates used in digital payment ecosystem well in time.

18. The mobile application[2](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12032&Mode=0#F2) and internet banking application should have effective logging and monitoring capabilities to track user activity, security changes and identify anomalous behaviour and transactions.

**Application Security Life Cycle (ASLC)**

19. REs shall implement multi-tier application architecture, segregating application, database and presentation layer in the digital payment products and services.

20. REs shall follow a ‘secure by design’ approach in the development of digital payment products and services. REs shall ensure that digital payment applications are inherently more secure by embedding security within their development lifecycle.

21. REs shall explicitly define security objectives (including protection of customer information/ data) during (a) requirements gathering, (b) designing, (c) development, (d) testing including source code review, (e) implementation, maintenance & monitoring and (f) decommissioning phases of the digital payment applications.

22. REs (including those partnering with other entities to co-brand/ co-develop applications) shall adopt and incorporate a threat modelling approach during application lifecycle management into their policies, processes, guidelines and procedures.

23. For digital payment applications that are licensed by a third party vendor, REs shall have an escrow arrangement for the source code for ensuring continuity of services in case the vendor defaults or is unable to provide services.

24. REs shall conduct security testing including review of source code, Vulnerability Assessment (VA) and Penetration Testing (PT) of their digital payment applications to assure that the application is secure for putting through transactions while preserving confidentiality and integrity of the data that is stored and transmitted. Such testing should invariably cover compliance with various standards like OWASP. If the source code is not owned by the RE, then, in such cases, the RE shall obtain a certificate from the application developer stating that the application is free of known vulnerabilities, malwares and any covert channels in the code.

In this context,

1. The VA shall be conducted at least on a half-yearly basis; PT shall be conducted at least on a yearly basis. In addition, VA/PT shall be conducted as and when any new IT Infrastructure or digital payment application is introduced or when any major change is performed in application or infrastructure;
2. Testing related to review of source code/ certification shall be conducted/ obtained. This shall continue on a yearly basis, if changes/ upgrades have been made to the application during the year;
3. Testing/ Certification should broadly address the objective that the product/ version/module(s) functions only in a manner that it is intended to do, is developed as per the best secure design/ coding practices and standards, addressing known flaws/threats due to insecure coding; and
4. Penal provisions shall be included by the RE into third-party contractual arrangements for any non-compliance by the application provider.

25. REs may also run automated VA scanning tools to automatically scan all systems on the network that are critical, public facing or store customer sensitive data on a continuous/ more frequent basis.

26. REs shall compare the results from earlier vulnerability scans to verify/ ascertain that vulnerabilities are addressed either by patching, implementing a compensating control, or documenting and accepting the residual risk with necessary approval and that there is no recurrence of the known vulnerabilities. The identified vulnerabilities should be fixed in a time-bound manner.

27. REs shall ensure that all vulnerability scanning is performed in authenticated mode either with agents running locally on the system to analyse the security configuration or with remote scanners that are given administrative rights on the system being tested.[3](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12032&Mode=0#F3)

28. REs shall verify and thoroughly test the functionality (to validate whether the system meets the functional requirements/ specifications) and security controls of payment products and services before its launch/ moving to the production environment.

29. REs shall institute a mechanism to actively monitor for the non-genuine/ unauthorised/ malicious applications (with similar name/ features) on popular app-stores and the Web and respond accordingly to bring them down.

30. The server at the RE’s end should have adequate checks and balances to ensure that no transaction is carried out through non-genuine/ unauthorised digital payment products/ applications and the authentication process is robust, secure and centralised.

31. The security controls for digital payment applications must focus on how these applications handle, store and protect payment data. The APIs for secure data storage and communication have to be implemented and used correctly in order to be effective. REs shall refer to standards such as OWASP-MASVS, OWASP-ASVS and other relevant OWASP standards, security and data protection guidelines in ISO 12812, threat catalogues and guides developed by NIST (including for Bluetooth and LTE security), for application security and other protection measures. Such testing has to necessarily verify for vulnerabilities including, but not limited to OWASP/ OWASP Mobile Top 10, application security guidelines/ requirements developed/ shared by operating system providers/ OEMs.

32. REs shall redact/ mask customer information such as account numbers/ card numbers/ other sensitive information when transmitted via SMS/ e-mails.

**Authentication Framework**

33. In view of the proliferation of cyber-attacks and their potential consequences, REs should implement, except where explicitly permitted/ relaxed, multi-factor authentication for payments through electronic modes and fund transfers, including cash withdrawals from ATMs/ micro-ATMs/ business correspondents, through digital payment applications. At least one of the authentication methodologies should be generally dynamic or non-replicable. [e.g., Use of One Time Password, mobile devices (device binding and SIM), biometric/ PKI/ hardware tokens, EMV chip card (for Card Present Transactions) with server-side verification could be termed either in dynamic or non-replicable methodologies.].

34. REs may also adopt adaptive authentication to select the right authentication factors depending on risk assessment, user risk profile and behaviour. Properly designed and implemented multi-factor authentication methods are more reliable and stronger fraud deterrents and are more difficult to compromise. The key objectives of multi-factor authentication are to protect the confidentiality of payment data as well as enhance confidence in digital payment by combating various cyber-attack mechanisms like phishing, keylogging, spyware/ malware and other internet-based frauds targeted at REs and their customers. In this regard,

1. The implementation of appropriate authentication methodologies should be based on an assessment of the risk posed by the RE’s digital payment products and services. The risk should be evaluated in light of the type of customer (e.g., retail/ corporate/ commercial); the customer transactional requirements/ pattern (e.g., bill payment, fund transfer), the sensitivity of customer information and the volume, value of transactions involved.
2. Beyond the technology factor, the success of a particular authentication method depends on appropriate policies, procedures, and controls. An effective authentication method should take into consideration customer acceptance, ease of use, reliable performance, scalability to accommodate growth, customer profile, location, transaction, etc., and interoperability with other systems.
3. To enhance online processing security, multi factor authentication and alerts (like SMS, e-mail, etc.) should be applied in respect of all payment transactions (including debits and credits), creation of new account linkages (addition/ modification/ deletion of beneficiaries), changing account details or revision to fund transfer limits. In devising these security features, REs should take into account their efficacy and differing customer preferences for additional online protection.
4. The alerts and OTPs received by the customer for online transactions shall identify the merchant name, wherever applicable, rather than the payment aggregator through which the transaction was effected.
5. As an integral part of the multi factor authentication architecture, REs should also implement appropriate measures to minimise exposure to a middleman attack which is more commonly known as a man-in-the-middle attack (MITM), man-in-the browser (MITB) attack or man-in-the application attack. This is to ensure, among other things, that the data in transit is secured and the transactions are authenticated only by genuine/ authorised source/ process.
6. An authenticated session, together with its encryption protocol, should remain intact throughout the interaction with the customer. Else, in the event of interference or in case the customer closes the application, the session should be terminated, and the affected transactions resolved or reversed out. The customer should be promptly notified about the status of the transaction by email, SMS or through other means.

35. REs should set down the maximum number of failed log-in or authentication attempts after which access to the digital payment product/ service is blocked. They should have a secure procedure in place to re-activate the access to blocked product/ service. The customer shall be notified for failed log-in or authentication attempts.

**Fraud Risk Management**

36. The REs shall document and implement the configuration aspects for identifying suspicious transactional behaviour in respect of rules, preventive, detective types of controls, mechanism to alert the customers in case of failed authentication, time frame for the same, etc.

37. System alerts shall be parameterised and monitored in terms of various applicable parameters. Such parameters, as applicable could be: transaction velocity (e.g., fund transfers, cash withdrawals, payments through electronic modes, adding new beneficiaries, etc.) in a short period, more so in the accounts of customers who’ve never used mobile app/ internet banking/ card ever (depending upon the type of payment channel), high risk merchant category codes (MCC) parameters, counterfeit card parameters (String of Invalid CVV/ PINs indicates an account generation attack), new account parameters (excessive activity on a new account), time zones, geo-locations, IP address origin (in respect of unusual patterns, prohibited zones/ rogue IPs), behavioural biometrics, transaction origination from point of compromise, transactions to mobile wallets/ mobile numbers/ VPAs on whom vishing fraud or other types of fraud is/are registered/ recorded, declined transactions, transactions with no approval code, etc.

38. Fraud analysis shall be conducted to identify the reason for fraud occurrence and determine mechanism to prevent such frauds.

39. The staff, especially in the fraud control function, shall be educated about frauds and trained in the following skills and areas of expertise:

1. Fraud control tools and their usage;
2. Investigative techniques and procedures;
3. Cardholder and merchant education techniques to prevent fraud;
4. Scheme/ Card operating regulations;
5. Data processing and analysis and liaising or communicating with law enforcement agencies; and
6. The requisite skills required to (i) set and update appropriate rules, (ii) monitor the exceptions thrown based on the rules on a continuous basis and take necessary actions promptly, (iii) communicate/ escalate wherever required to appropriate authorities, and (iv) differentiate false positives from the rest.

40. REs shall maintain updated contact details of service providers, intermediaries, external agencies and other stakeholders (including other REs) for coordination in incident response. REs shall put in place a mechanism with the stakeholders to update and verify such contact details. REs shall also formulate specific SOPs to handle incidents related to payment ecosystem to mitigate the loss either to the customer or RE.

**Reconciliation Mechanism**

41. A real time/ near-real time (not later than 24 hours from the time of receipt of settlement file(s)) reconciliation framework for all digital payment transactions between RE and all other stakeholders such as payment system operators, business correspondents, card networks, payment system processors, payment aggregators, payment gateways, third party technology service providers, other participants, etc., shall be put in place for better detection and prevention of suspicious transactions. A mechanism shall be introduced to monitor the implementation and effectiveness of such framework.

**Customer Protection, Awareness and Grievance Redressal Mechanism**

42. REs shall incorporate secure, safe and responsible usage guidelines and training materials for end users within the digital payment applications. They shall also make it mandatory (i.e. not providing any option to circumvent/ avoid the material) for the consumer to go through secure usage guidelines (even in the consumer’s preferred language) while obtaining and recording confirmation during the on-boarding procedure in the first instance and first use after each update of the digital payment application or after major updates to secure and safe usage guidelines.

43. REs shall mention/ incorporate a section on the digital payment application clearly specifying the process and procedure (with forms/ contact information, etc.) to lodge consumer grievances. A mechanism to keep this information periodically updated shall also be put in place. The reporting facility on the application shall provide an option for registering a grievance. Customer dispute handling, reporting and resolution procedures, including the expected timelines for the RE's response should be clearly defined.

44. REs shall adhere to extant instructions[4](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12032&Mode=0#F4), updated from time to time, to put in place system/s for online dispute resolution for resolving disputes and grievances of customers pertaining to digital payments.

45. REs shall educate customers about the need to maintain the physical and logical security of their devices accessing digital payment products and services including recommending secure/ regular installation of operating system and application updates, downloading applications only from authorised sources, having anti-malware/ anti-virus applications on devices, etc.

46. REs shall ensure that its customers are provided information about the risks, benefits and liabilities of using digital payment products and its related services before they subscribe to them. Customers shall also be informed clearly and precisely on their rights, obligations and responsibilities on matters relating to digital payments, and, any problems that may arise from its service unavailability, processing errors and security breaches. The terms and conditions including customer privacy and security policy applying to digital payment products and services shall be readily available to customers within the product. All digital channels are to be offered on express willingness of customers and shall not be bundled without their knowledge.

47. Whenever new operating features or functions, particularly those relating to security, integrity and authentication, are introduced to online delivery channels, clear and effective communication followed by sufficient instructions to properly utilise such new features should be provided to the customers.

48. REs may continuously create public awareness on the types of threats and attacks used against the consumers while using digital payment products and precautionary measures to safeguard against the same. Customers shall be cautioned against commonly known threats in recent times like phishing, vishing, reverse-phishing, remote access of mobile devices and educated to secure and safeguard their account details, credentials, PIN, card details, devices, etc.

49. REs shall provide digital payment products and services, to a customer only at her/ his option based on specific written or authenticated electronic requisition along with a positive acknowledgement of the terms and conditions.

50. REs should provide a mechanism on their mobile and internet banking application for their customers to, with necessary authentication, identify/ mark a transaction as fraudulent for seamless and immediate notification to his RE. On such notification by the customer, the REs may endeavour to build the capability for seamless/ instant reporting of fraudulent transactions to the corresponding beneficiary/ counterparty’s RE; vice-versa have mechanism to receive such fraudulent transactions reported from other REs. The objective of this mechanism is to accelerate early detection and enable the banking/ payment system to trace the transaction trail and mitigate the loss to the defrauded customer at the earliest possible time.

**Chapter III**

**INTERNET BANKING SECURITY CONTROLS**

In addition to the controls prescribed in [Chapter II](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12032&Mode=0#6), the following instructions are applicable to REs offering/ intending to offer internet banking facility to their customers:

51. Internet banking websites are vulnerable to authentication related brute force attacks/ application layer Denial of Service (DoS) attacks. Based on the RE’s individual risk/ vulnerability assessment on authentication-related attacks such as brute force/ DoS attacks, REs shall implement additional levels of authentication to internet banking website such as adaptive authentication, strong CAPTCHA (preferably with anti-bot features) with server-side validation, etc., in order to plug this vulnerability and prevent its exploitation. Appropriate measures shall be taken to prevent DNS cache poisoning attacks and for secure handling of cookies. Virtual keyboard option should be made available.

52. An online session shall be automatically terminated after a fixed period of inactivity.

53. Secure delivery of password for login purpose shall be ensured. The password generated and dispatched by the RE should be valid for a limited period from the date of its creation. If the password is generated and dispatched by the RE, then, the user shall be compulsorily required to change the password, on the first login.

54. When the internet banking application is accessed through external websites (eg: in case of payment of taxes, e-commerce transactions, etc.), the procedure for authentication and the appearance/ look and feel of the RE’s internet banking site should be made uniform as far as possible.

**Chapter IV**

**MOBILE PAYMENTS APPLICATION SECURITY CONTROLS**

In addition to the controls prescribed in [Chapter II](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12032&Mode=0#6), the following instructions are applicable to the REs offering/ intending to offer mobile banking/ mobile payments facility to their customers through mobile application:

55. On detection of any anomalies or exceptions for which the mobile application was not programmed, the customer shall be directed to remove the current copy/ instance of the application and proceed with installation of a new copy/ instance of the application. REs shall be able to verify the version of the mobile application before the transactions are enabled.

56. Specific Controls for mobile applications include:

1. Device policy enforcement (allowing app installation/ execution after baseline requirements are met);
2. Application secure download/ install;
3. Deactivating older application versions in a phased but time bound manner (not exceeding six months from the date of release of newer version) i.e., maintaining only one version (excluding the overlap period while phasing out older version) of the mobile application on a platform/ operating system;
4. Storage of customer data;
5. Device or application encryption;
6. Ensuring minimal data collection/ app permissions;
7. Application sandbox/ containerisation;
8. Ability to identify remote access applications (to the extent possible) and prohibit login access to the mobile application, as a matter of precaution; and
9. Code obfuscation.

57. REs may consider to perform validation on the security and compatibility condition of the device/ operating system and the mobile application to ensure that activities relating to the account are put through the mobile application in a safe and secure manner.

58. REs may explore the feasibility of implementing a code that checks if the device is rooted/ jailbroken prior to the installation of the mobile application and disallow the mobile application to install/ function if the phone is rooted/ jailbroken.

59. Checksum of current active version of application shall be hosted on public platform so that users can verify the same.

60. REs shall ensure device binding of mobile application[5](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12032&Mode=0#F5).

61. Considering that the additional factor of authentication and mobile application may reside on the same mobile device in the case of mobile banking, mobile payments, REs may consider implementing alternatives to SMS-based OTP authentication mechanisms.

62. The mobile application should require re-authentication whenever the device or application remains unused for a designated period and each time the user launches the application. Applications must be able to identify new network connections or connections from unsecured networks like unsecured Wi-Fi connections and must implement appropriate authentication/ checks/ measures to perform transactions under those circumstances.

63. The mobile application should not store/ retain sensitive personal/ consumer authentication information such as user IDs, passwords, keys, hashes, hard coded references on the device and the application should securely wipe any sensitive customer information from memory when the customer/ user exits the application.

64. REs shall ensure that their mobile application limit the writing of sensitive information into ‘temp’ files. The sensitive information written in such files must be suitably encrypted/ masked/ hashed and stored securely.

65. REs may consider designing anti-malware capabilities into their mobile applications.

66. REs shall ensure that the usage of raw (visible) SQL queries in mobile applications to fetch or update data from databases is avoided. Mobile applications should be secured from SQL injection type of vulnerabilities. Sensitive information should be written to the database in an encrypted form. Web content, as part of the mobile application’s layout, should not be loaded if errors are detected during SSL/ TLS negotiation. Certificate errors on account of the certificate not being signed by a recognised certificate authority; expiry/ revocation of the certificate must be displayed to the user.

**Chapter V**

**CARD PAYMENTS SECURITY**

In addition to the controls prescribed in [Chapter II](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12032&Mode=0#6), the following instructions are applicable to the REs offering/ intending to issue cards (credit/ debit/ prepaid) (physical or virtual) to their customers:

67. REs shall follow various payment card standards (over and above PCI-DSS and PA-DSS[6](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12032&Mode=0#F6)) as per Payment Card Industry (PCI) prescriptions for comprehensive payment card security as per applicability/ readiness of updated versions of the standards such as –

1. PCI-PIN (secure management, processing, and transmission of personal identification number (PIN) data);
2. PCI-PTS (security approval framework addresses the logical and/ or physical protection of cardholder and other sensitive data at point of interaction (POI) devices and hardware security modules (HSMs);
3. PCI-HSM (securing cardholder-authentication applications and processes including key generation, key injection, PIN verification, secure encryption algorithm, etc.); and
4. PCI-P2PE (security standard that requires payment card information to be encrypted instantly upon its initial swipe and then securely transferred directly to the payment processor).

68. REs should ensure that terminals installed at the merchants for capturing card details for payments or otherwise are validated against the PCI-P2PE program to use PCI-approved P2PE solutions; PoS terminals with PIN entry installed at the merchants for capturing card payments (including the double swipe terminals) are approved by the PCI-PTS program.

69. Acquirers shall secure their card payment infrastructure (Unique Key Per Terminal – UKPT or Derived Unique Key Per Transaction – DUKPT/ Terminal Line Encryption – TLE).

70. The security controls to be implemented at HSM are:

1. The HSMs should have logging enabled, the logs must themselves be tamper proof;
2. HSM can become a single point of failure. This needs to be mitigated by ‘clustering’ for high availability and ensure secure backups;
3. Access to the HSM should be controlled through Access Control Lists (ACLs);
4. Separate ACLs should be maintained for each individual application to ensure application level isolation;
5. All access to HSM should be managed and monitored using a robust Privileged Identity and Access Management solution;
6. Decryption and validation of keys, PIN should be done at HSM;
7. Card PIN generation and printing should be directly at system connected HSM;
8. CVV generation and validation should be done at HSM;
9. Ensure HSM is implemented with secure PIN block format with controls to disable outputting PIN block in weaker format;
10. Secure key management for HSMs (such as LMKs, etc.); and
11. Security of the physical keys of the HSM device should be properly maintained.

71. REs shall implement the following for improving the security posture of the ATM:

1. Implement security measures such as BIOS password, disabling USB ports, disabling auto-run facility, applying the latest patches of operating system and other softwares, terminal security solution, time-based admin access, etc;
2. Implement anti-skimming and whitelisting solution; and
3. Upgrade all the ATMs with supported versions of operating system. Use of ATMs that have unsupported operating systems shall be prohibited.

72. REs shall ensure robust surveillance/ monitoring of card transactions (especially overseas cash withdrawals) and setting up of rules and limits commensurate with their risk appetites. REs shall take up with the card network and/ or ATM network as the case may be, to put in place transaction limits at Card, BIN as well as at the RE level. Such limits shall be mandatorily set at the card network switch itself. Limits could be mandated both for domestic as well as international transactions separately. REs shall put in place transaction control mechanisms with necessary caps (restrictions on transactions), if any of the limits set as per the above requirement is breached. A periodic review mechanism of such limits set as per the risk appetite of the RE shall be put in place as per the Board-approved policy. REs shall institute a mechanism to monitor breaches, if any, on a 24x7 basis, including weekends, long holidays and put in place a robust incident response mechanism to mitigate the fraud loss, on account of suspicious transactions, if any. REs shall ensure that card details of the customers are not stored in plain text at the RE and its vendor(s) locations, systems and applications. REs shall also ensure that the processing of card details in readable format is performed in a secure manner to strictly avoid data leakage of sensitive customer information.

73. REs that use card data scanning tools to identify unencrypted (clear text) payments card data in their ecosystem especially during audits shall adhere to the following safety measures:

1. Any tool (procured by/ from a third-party) for the purpose of scanning of unencrypted card data should first be tested in a test environment to understand the scope and impact of the tool’s capabilities;
2. The scanning tool should be installed only in the RE's premises on their devices;
3. Card data scanning should not be done remotely;
4. The discovered data, if any, must preferably reside in the scanning tool. Exportable card data must be appropriately masked. (No data, even masked, must be taken out of the RE’s premises/ infrastructure); and
5. Limited access to service providers to conduct the scan or analyse the data, if at all, must be provided only on the RE’s devices.

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12032&Mode=0>

**32. Capital and provisioning requirements for exposures to entities with Unhedged Foreign Currency Exposure**

**RBI/2020-21/100 DOR.No.MRG.BC.41/21.06.200/2020-21 February 17, 2021**

*All Scheduled Commercial Banks (Excluding RRBs)*

Please refer to our [circular DBOD.No.BP.BC.116/21.06.200/2013-14 dated June 3, 2014](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=8914&Mode=0) on capital and provisioning requirements for exposures to entities with Unhedged Foreign Currency Exposure (UFCE).

2. The guidelines mandate that information on UFCE may be obtained by banks from entities on a quarterly basis, on self-certification basis, and preferably should be internally audited by the entity concerned. We have received representation from banks expressing their inability in obtaining UFCE certificates from listed entities for the latest quarter due to restrictions on disclosure of such information prior to finalisation of accounts.

3. In view of this, it has been decided that in such cases, banks may use data pertaining to the immediate preceding quarter for computing capital and provisioning requirements in case of Unhedged Foreign Currency Exposures.

4. All other instructions remain unchanged.

**33.** **Margin for Derivative Contracts**

RBI/2020-21/98
A. P. (DIR Series) Circular No. 10

February 15, 2021

All Authorised Dealer Category-I Banks

Madam/Sir,

**Margin for Derivative Contracts**

Attention of Authorised Dealer Category-I (AD Cat-I) banks is invited to the Foreign Exchange Management (Margin for Derivative Contracts) Regulations, 2020 notified in the Gazette of India vide notification no. FEMA.399/RB-2020 dated October 23, 2020 ([Annex I](https://rbidocs.rbi.org.in/rdocs/content/pdfs/AnnexI_15022021.pdf)). Accordingly, directions are being issued to allow posting and collection of margin for permitted derivative contracts between a person resident in India and a person resident outside India.

2. AD Cat-I banks may post and collect margin in India, on their own account or on behalf of their customers, for a permitted derivative contract entered into with a person resident outside India in the form of:

1. Indian currency;
2. Freely convertible foreign currency;
3. Debt securities issued by Indian Central Government and State Governments;
4. Rupee bonds issued by persons resident in India which are:
	1. Listed on a recognized stock exchange in India; and
	2. Assigned a credit rating of AAA issued by a rating agency registered with the Securities and Exchange Board of India. If different ratings are accorded by two or more credit rating agencies, then the lowest rating shall be reckoned.

Explanation: Permitted derivative contract shall have the same meaning as assigned to it in the Foreign Exchange Management (Margin for Derivative Contracts) Regulations, 2020 [Notification no. FEMA.399/RB-2020 dated October 23, 2020].

3. AD Cat-I banks may post and collect such margin outside India in the form of:

1. Freely convertible foreign currency; and
2. Debt securities issued by foreign sovereigns with a credit rating of AA- and above issued by S&P Global Ratings / Fitch Ratings or Aa3 and above issued by Moody’s Investors Service. If different ratings are accorded by two or more credit rating agencies, then the lowest rating shall be reckoned.

4. AD Cat-I banks may receive and pay interest on margin posted and collected on their own account or on behalf of their customers for a permitted derivative contract entered into with a person resident outside India.

5. AD Cat-I banks shall maintain a separate account in the name of persons resident outside India for the purpose of posting and collecting cash margin in India, and transactions incidental thereto.

6. The directions contained in this circular have been issued under Sections 10(4) and 11(1) of the Foreign Exchange Management Act, 1999 (42 of 1999) and are without prejudice to permissions / approvals, if any, required under any other law.

Yours faithfully,

(Dimple Bhandia)
Chief General Manager

34. **Investment in NBFCs from FATF non-compliant jurisdictions**

**RBI/2020-2021/97 DOR.CO.LIC.CC No.119/03.10.001/2020-21 February 12, 2021**

*Non-Banking Financial Companies (NBFCs) (including Housing Finance Companies) and Asset Reconstruction Companies*

The Financial Action Task Force (FATF) periodically identifies jurisdictions with weak measures to combat money laundering and terrorist financing (AML/CFT) in its following publications: i) High-Risk Jurisdictions subject to a Call for Action, and ii) Jurisdictions under Increased Monitoring. A jurisdiction, whose name does not appear in the two aforementioned lists, shall be referred to as a FATF compliant jurisdiction. Investments in NBFCs from FATF non-compliant jurisdictions shall not be treated at par with that from the compliant jurisdictions.

2. Investors in existing NBFCs holding their investments prior to the classification of the source or intermediate jurisdiction/s as FATF non-compliant, may continue with the investments or bring in additional investments as per extant regulations so as to support continuity of business in India.

3. New investors from or through non-compliant FATF jurisdictions, whether in existing NBFCs or in companies seeking Certification of Registration (COR), should not be allowed to directly or indirectly acquire ‘significant influence’ in the investee, as defined in the applicable accounting standards. In other words, fresh investors (directly or indirectly) from such jurisdictions in aggregate should be less than the threshold of 20 per cent of the voting power (including potential[1](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12027&Mode=0#F1) voting power) of the NBFC.

4. These instructions are applicable with immediate effect.

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

**RBI/2020-21/95 DOR.No.LRG.BC.40/21.04.098/2020-21 February 05, 2021**

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

Please refer to our [circular DBR.BP.BC.No.106/21.04.098/2017-18 dated May 17, 2018](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11278&Mode=0) on Basel III Framework on Liquidity Standards - Net Stable Funding Ratio (NSFR)-Final Guidelines (‘NSFR Guidelines’) and [circular DOR.BP.BC.No.16/21.04.098/2020-21 dated September 29, 2020](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11971&Mode=0) deferring the implementation of the said guidelines till April 1, 2021.

2. In view of the ongoing stress on account of COVID-19, it has been decided to defer the implementation of NSFR guidelines by a further period of six months. Accordingly, the NSFR Guidelines shall come into effect from October 1, 2021.

36. **SLR holdings in HTM category**

**RBI/2020-21/94 DOR.No.MRG.BC.39/21.04.141/2020-21 February 5, 2021**

*All Commercial Banks*

Please refer to paragraph 4 of [Statement on Developmental and Regulatory Policies dated February 5, 2021](https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=51078) and our [circular DoR.No.BP.BC.22/21.04.141/2020-21 dated October 12, 2020](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11982&Mode=0) on the above subject.

2. Banks are permitted to exceed the limit of 25 per cent of the total investments under Held to Maturity (HTM) category provided:

1. the excess comprises only of SLR securities; and
2. total SLR securities held under HTM category is not more than 19.5 per cent of Net Demand and Time Liabilities (NDTL) as on the last Friday of the second preceding fortnight.

3. With respect to the limit stated in paragraph 2(b) above, banks have been granted a special dispensation of enhanced HTM limit of 22 per cent of NDTL, for SLR securities acquired between September 1, 2020 and March 31, 2021, until March 31, 2022. The enhanced limit was required to be restored in a phased manner over three quarters beginning with the quarter ending June 30, 2022.

4. It has now been decided to extend the dispensation of enhanced HTM of 22 per cent to March 31, 2023 to include SLR securities acquired between April 1, 2021 and March 31, 2022. Thus, banks may exceed the limit specified in paragraph 2(b) above upto 22 per cent of NDTL (instead of 19.5 per cent of NDTL) till March 31, 2023, provided such excess is on account of SLR securities acquired between September 1, 2020 and March 31, 2022.

5. The schedule for restoring the enhanced HTM limit to 19.5 per cent of NDTL specified in paragraph 3 of the [circular dated October 12, 2020](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11982&Mode=0) referred to above is accordingly modified. The enhanced HTM limit shall be restored to 19.5 percent in a phased manner, beginning from the quarter ending June 30, 2023, i.e. the excess SLR securities acquired by banks during the period September 1, 2020 to March 31, 2022 shall be progressively reduced from the HTM category such that the total SLR securities under the HTM category as a percentage of the NDTL does not exceed:

1. 21.00 per cent as on June 30, 2023
2. 20.00 per cent as on September 30, 2023
3. 19.50 per cent as on December 31, 2023

6. As per extant instructions, banks may shift investments to/from HTM with the approval of the Board of Directors once a year and such shifting will normally be allowed at the beginning of the accounting year. However, in order to enable banks to shift their excess SLR securities from the HTM category to available for sale (AFS)/ held for trading (HFT) to comply with the instructions as indicated in paragraph 5 above, it has been decided to allow such shifting of the excess securities during the quarter in which the HTM ceiling is brought down. This would be in addition to the shifting permitted at the beginning of the accounting year.

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

**RBI/2020-21/93 DOR.CAP.BC.No.34/21.06.201/2020-21 February 5, 2021**

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

Please refer to [circular DOR.BP.BC.No.15/21.06.201/2020-21 dated September 29, 2020](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11970&Mode=0) on ‘Basel III Capital Regulations- Review of transitional arrangements’.

2. In view of the continuing stress on account of COVID-19 and in order to aid in the recovery process, it has been decided to defer the implementation of the last tranche of 0.625 per cent of the Capital Conservation Buffer (CCB) from April 1, 2021 to October 1, 2021. Accordingly, the minimum capital conservation ratios in para 15.2.2 of Part D ‘Capital Conservation Buffer Framework’ of [Master Circular, DBR.No.BP.BC.1/21.06.201/2015-16 dated July 1, 2015](https://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=9859) on ‘Basel III Capital Regulations’, shall continue to apply till the CCB attains the level of 2.5 per cent on October 1, 2021.

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

**38. Credit to MSME Entrepreneurs**

**RBI/2021-22/30 DoR.RET.REC.09/12.01.001/2021-22 May 05, 2021**

*All Scheduled Commercial Banks*

Please refer to our circular DOR.No.Ret.BC.37/12.01.001/2020-21 dated February 5, 2021, on captioned subject.

2. In terms of the above circular, Scheduled Commercial Banks were allowed to deduct the amount equivalent to credit disbursed to new MSME borrowers from their Net Demand and Time Liabilities (NDTL) for calculation of the Cash Reserve Ratio (CRR). This exemption was available up to ₹ 25 lakh per borrower for the credit disbursed up to the fortnight ending October 1, 2021.

3. It has been decided to extend this exemption for such credits disbursed up to the fortnight ending December 31, 2021. All other instructions contained in the circular ibid remain same.

**39. Section 24 of the Banking Regulation Act, 1949 – Maintenance of Statutory Liquidity Ratio (SLR) – Marginal Standing Facility (MSF) - Extension of Relaxation**

**RBI/2020-21/91 DOR.No.Ret.BC.36/12.01.001/2020-21 February 05, 2021**

*All Scheduled Banks*

Please refer to our [circulars DOR.No.Ret.BC.52/12.01.001/2019-20 dated March 27, 2020](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11838&Mode=0), [DOR.RRB.No.28/31.01.001/2020-21 dated December 4, 2020](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12004&Mode=0) and [Press Release No.2020-2021/401 dated September 28, 2020](https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=50427) on Marginal Standing Facility (MSF), wherein the banks were allowed to avail of funds under the MSF by dipping into the Statutory Liquidity Ratio (SLR) up to an additional one per cent of their net demand and time liabilities (NDTL), i.e., cumulatively up to three per cent of NDTL. This facility, which was initially available up to June 30, 2020 was later extended in phases up to March 31, 2021 providing comfort to banks on their liquidity requirements and also to enable them to meet their Liquidity Coverage Ratio (LCR) requirements.

2. As announced in the [Statement of Developmental and Regulatory Policies of February 05, 2021](https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=51078), with a view to providing comfort to banks on their liquidity requirements, banks are allowed to continue with the MSF relaxation for a further period of six months, i.e., up to September 30, 2021.

**40. Maintenance of Cash Reserve Ratio (CRR)**

**RBI/2020-21/90 DOR.No.Ret.BC.35/12.01.001/2020-21 February 5, 2021**

*All Banks*

Please refer to our [Circular DOR.No.Ret.BC.49/12.01.001/2019-20 dated March 27, 2020](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11841&Mode=0), on the captioned subject. The cash reserve ratio (CRR) of all banks was reduced by 100 basis points to 3.00 per cent of their Net Demand and Time liabilities (NDTL) effective from the reporting fortnight beginning March 28, 2020. The dispensation was available for a period of one year ending March 26, 2021.

2. As announced in paragraph 2 of the [Statement on Developmental and Regulatory Policies dated February 05, 2021](https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=51078), it has been decided to gradually restore the CRR in two phases in a non-disruptive manner. Accordingly, banks are required to maintain the CRR at 3.50 per cent of their NDTL effective from the reporting fortnight beginning March 27, 2021 and 4.00 per cent of their NDTL effective from fortnight beginning May 22, 2021.

**41. Loans and advances to directors, their relatives, and firms / concerns in which they are interested**

**RBI/2020-21/89 DOR.CRG.CRS.Cir.No.5/13.05.000/2020-21 February 5, 2021**

*The Managing Director / Chief Executive Officer, All Primary (Urban) Co-operative Banks*

Please refer to our [circular BPD.Cir.50/13.05.00/2002-03 dated April 29, 2003](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=1204&Mode=0) on the captioned subject and subsequent instructions issued in this regard.

2. The Banking Regulation Act, 1949 (**“the Act”**) has been amended by the Banking Regulation (Amendment) Act, 2020 notified for the Primary (Urban) Co-operative Banks (**UCBs**) on September 29, 2020 and deemed to have been effective from June 29, 2020. Consequently, section 20 of the principal Act has become applicable to UCBs. Keeping in view the above, the extant directions on the subject issued to UCBs have been reviewed and the revised directions are issued as under.

3. UCBs shall not make, provide or renew any loans and advances or extend any other financial accommodation to or on behalf of their directors or their relatives, or to the firms / companies / concerns in which the directors or their relatives are interested (collectively called as **“director-related loans”**). Further, the directors or their relatives or the firms / companies / concerns in which the directors or their relatives are interested shall also not stand as surety/guarantor to the loans and advances or any other financial accommodation sanctioned by UCBs. ‘Advances’ for the purpose shall include all types of funded / working capital limits such as cash credits, overdrafts, credit cards, etc.

4. The following categories of director-related loans shall, however, be excluded from “loans and advances” for the purpose of these directions:

1. Regular employee-related loans to staff directors, if any, on the Boards of UCBs;
2. Normal loans, as applicable to members, to the directors on the Boards of Salary Earners' UCBs;
3. Normal employee-related loans to Managing Directors / Chief Executive Officers of UCBs;
4. Loans to directors or their relatives against Government Securities, Fixed Deposits and Life Insurance Policies standing in their own name.

**Explanation:** For the purpose of these directions -

I. The term 'any other financial accommodation' shall include funded and non-funded credit limits and underwritings and similar commitments, as under:

1. The funded limits shall include loans and advances by way of bill/cheque purchase/ discounting, pre-shipment and post-shipment credit facilities and deferred payment guarantee limits extended for any purpose including purchase of capital equipment and acceptance limits in connection therewith sanctioned to borrowers, and guarantees by issue of which a bank undertakes financial obligation to enable its constituents to acquire capital assets. It shall also include investments which are in the nature of / in lieu of credit.
2. The non-funded limits shall include letters of credit, guarantees other than those referred to in paragraph (a) above, underwritings and similar commitments. It shall also include off-balance sheet exposure in the form of derivatives.

II. The word “relative” shall have the meaning as under:

A person shall be deemed to be a relative of another, if and only if:-

a) They are members of a Hindu Undivided Family; or

b) They are husband and wife; or

c) The one is related to the other (or vice-versa) in the manner indicated below:

1. Father (including step-father)
2. Mother (including step-mother)
3. Son (including step-son)
4. Son’s wife
5. Daughter (including step-daughter)
6. Daughter’s husband
7. Brother (including step-brother)
8. Brother’s wife
9. Sister (including step-sister)
10. Sister’s husband

III. The word “interested” shall mean the director of the UCB or his relative, as the case may be, being a director, managing agent, manager, employee, proprietor, partner, coparcener or guarantor, as the case may be, of the firm / company / concern (including HUF):

1. Provided that a director of a UCB or his relative shall also be deemed to be interested in a company, being the subsidiary or holding company, if he/she is a director, managing agent, manager, employee or guarantor of the respective holding or subsidiary company:
2. Provided further that a director of a UCB shall also be deemed to be interested in a company/firm if he/she holds substantial interest in or is in control of the company/firm or in a company, being the subsidiary or holding company, if he/she holds substantial interest in or is in control of the respective holding or subsidiary company:
3. Provided further that a relative of a director of a UCB shall also be deemed to be interested in a company/firm if he/she is a major shareholder or is in control of the company/firm or in a company, being the subsidiary or holding company, if he/she is a major shareholder or is in control of the respective holding or subsidiary company:

IV. The term “substantial interest” shall have the same meaning as assigned to it in section 5(ne) of the Banking Regulation Act, 1949.

V. The term “control” shall include the right to appoint majority of the directors or to control the management or policy decisions exercisable by a person or persons acting individually or in concert, directly or indirectly, including by virtue of their shareholding or management rights or shareholders agreements or voting agreements or in another manner.

VI. The term “major shareholder” shall mean a person holding 10% or more of the paid up share capital.

5. UCBs shall submit information pertaining to their director-related loans as at the end of each quarter (i.e. 31 March, 30 June, 30 September and 31 December), in the format given in the [Annex](https://rbidocs.rbi.org.in/rdocs/content/pdfs/89NOT05022021_AN.pdf) to these directions, to the concerned Regional Office of Department of Supervision of Reserve Bank of India within fifteen days from the end of the respective quarter. In the case of UCBs functioning under Administrator(s) / Person(s)-in-Charge / Special Officers, the UCBs concerned should submit the information in respect of loans and advances availed by the Administrator(s) / Person(s)-in-Charge / Special Officers, including their relatives.

6. These directions supersede the earlier directives / instructions issued on the subject and shall come into force immediately. The existing director-related loans sanctioned/granted by UCBs in terms of the earlier directives / instructions prior to the issue of this circular, if any, may continue till their respective maturity and shall not be renewed further.

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

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12019&Mode=0>

**42. 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>

**43.**

**Prudential Guidelines on Capital Adequacy and Market Discipline - New Capital Adequacy Framework (NCAF) - Eligible Credit Rating Agencies – CRISIL Ratings Limited**

**RBI/2020-21/86 DOR.No.CRE.BC.33/21.06.007/2020-21 January 27, 2021**

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

Please refer to the [Master Circular DBR.No.BP.BC.4./21.06.001/2015-16 dated July 1, 2015](https://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=9893) on 'Prudential Guidelines on Capital Adequacy and Market Discipline - New Capital Adequacy Framework (NCAF)’ and [Master Circular DBR.No.BP.BC.1/21.06.201/2015-16 dated July 1, 2015](https://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=9859) on Basel III Capital Regulations.

2. In terms of paragraph 6 of the above circulars, CRISIL Limited has been accredited for the purpose of risk weighting the banks' claims for capital adequacy purposes along with other credit rating agencies (CRAs) registered with Securities and Exchange Board of India (SEBI). The rating business of CRISIL Limited has since been transferred to CRISIL Ratings Limited, a wholly owned subsidiary of CRISIL Limited in compliance with SEBI’s notification dated September 11, 2018 read with SEBI’s circular dated September 19, 2018. Banks may therefore, use the ratings of the CRISIL Ratings Limited for the purpose of risk weighting their claims for capital adequacy purposes. The rating-risk weight mapping for the long term and short-term ratings assigned by CRISIL Ratings Limited will be the same as was in the case of CRISIL Limited and there is no change in the rating symbols earlier assigned by CRISIL Limited.

3. All other provisions regarding external credit ratings stipulated in the aforementioned Master Circulars remain unchanged.

**44. 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>

**45. Introduction of Legal Entity Identifier for Large Value Transactions in Centralised Payment Systems**

**RBI/2020-21/82 DPSS.CO.OD No.901/06.24.001/2020-21 January 05, 2021**

*The Chairman / Managing Director / Chief Executive Officer of member banks participating in RTGS / NEFT*

The Legal Entity Identifier (LEI) is a 20-digit number used to uniquely identify parties to financial transactions worldwide. It was conceived as a key measure to improve the quality and accuracy of financial data systems for better risk management post the Global Financial Crisis.

2. LEI has been introduced by the Reserve Bank in a phased manner for participants in the over the counter (OTC) derivative and non-derivative markets as also for large corporate borrowers.

3. It has now been decided to introduce the LEI system for all payment transactions of value ₹50 crore and above undertaken by entities (non-individuals) using Reserve Bank-run Centralised Payment Systems viz. Real Time Gross Settlement (RTGS) and National Electronic Funds Transfer (NEFT).

4. In preparation for the wider introduction of LEI across all payment transactions, member banks should:

* advise entities who undertake large value transactions (₹50 crore and above) to obtain LEI in time, if they do not already have one;
* include remitter and beneficiary LEI information in RTGS and NEFT payment messages (details of the identified fields in the messaging structures of RTGS and NEFT for inclusion of LEI information are at Annex);
* maintain records of all transactions of ₹50 crore and above through RTGS and / or NEFT.

5. Entities can obtain LEI from any of the Local Operating Units (LOUs) accredited by the Global Legal Entity Identifier Foundation (GLEIF), the body tasked to support the implementation and use of LEI. In India, LEI can be obtained from Legal Entity Identifier India Ltd. (LEIL) (https://www.ccilindia-lei.co.in), which is also recognised as an issuer of LEI by the Reserve Bank under the Payment and Settlement Systems Act, 2007.

6. These directions are issued under Section 10 (2) read with Section 18 of Payment and Settlement Systems Act, 2007 (Act 51 of 2007) and shall be effective from April 1, 2021.

**Annex**

**Bank Customers who must obtain LEI**

1. All non-individual customers initiating or receiving transactions of ₹50 crore and above through RTGS and / or NEFT.

Fields in NEFT and RTGS payment messages to be used for recording Remitter and Beneficiary LEI

1. For RTGS customer payment transactions, LEI information shall be provided in ‘Remittance information’ field.
2. For NEFT outward debit messages, LEI information shall be provided in ‘Sender to Receiver Information’ field.
3. Technical guidelines for populating LEI in identified fields in RTGS and NEFT messages shall be communicated separately.

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12010&Mode=0>

**46. RBI releases 2020 list of Domestic Systemically Important Banks (D-SIBs)**

**Date: Jan 19, 2021**

SBI, ICICI Bank, and HDFC Bank continue to be identified as Domestic Systemically Important Banks (D-SIBs), under the same bucketing structure as in the 2018 list of D-SIBs. The additional Common Equity Tier 1 (CET1) requirement for D-SIBs was phased-in from April 1, 2016 and became fully effective from April 1, 2019. The additional CET1 requirement will be in addition to the capital conservation buffer.

The list of D-SIBs is as follows:

|  |  |  |
| --- | --- | --- |
| **Bucket** | **Banks** | **Additional Common Equity Tier 1 requirement as a percentage of Risk Weighted Assets (RWAs)** |
| 5 | - | 1% |
| 4 | - | 0.80% |
| 3 | State Bank of India | 0.60% |
| 2 | - | 0.40% |
| 1 | ICICI Bank, HDFC Bank | 0.20% |

**Background:**

The Reserve Bank had issued the Framework for dealing with Domestic Systemically Important Banks (D-SIBs) on July 22, 2014. The D-SIB framework requires the Reserve Bank to disclose the names of banks designated as D-SIBs starting from 2015 and place these banks in appropriate buckets depending upon their Systemic Importance Scores (SISs). Based on the bucket in which a D-SIB is placed, an additional common equity requirement has to be applied to it. In case a foreign bank having branch presence in India is a Global Systemically Important Bank (G-SIB), it has to maintain additional CET1 capital surcharge in India as applicable to it as a G-SIB, proportionate to its Risk Weighted Assets (RWAs) in India, i.e., additional CET1 buffer prescribed by the home regulator (amount) multiplied by India RWA as per consolidated global Group books divided by total consolidated global Group RWA.

Based on the methodology provided in the D-SIB framework and data collected from banks as on March 31, 2015 and March 31, 2016, the Reserve Bank had announced State Bank of India and ICICI Bank Ltd. as D-SIBs on August 31, 2015 and August 25, 2016, respectively. Based on data collected from banks as on March 31, 2017 and March 31, 2018, the Reserve Bank had announced State Bank of India, ICICI Bank Ltd. and HDFC Bank Ltd. as D-SIBs on September 04, 2017 and March 14, 2019 respectively. Current update is based on the data collected from banks as on March 31, 2020.

**47. FATF**

**High-risk and other monitored jurisdictions: Jurisdictions under Increased Monitoring - June 2021**

Jurisdictions under increased monitoring are actively working with the FATF to address strategic deficiencies in their regimes to counter money laundering, terrorist financing, and proliferation financing. When the FATF places a jurisdiction under increased monitoring, it means the country has committed to resolve swiftly the identified strategic deficiencies within agreed timeframes and is subject to increased monitoring. This list is often externally referred to as the “grey list”.

The FATF and FATF-style regional bodies (FSRBs) continue to work with the jurisdictions below as they report on the progress achieved in addressing their strategic deficiencies. The FATF calls on these jurisdictions to complete their action plans expeditiously and within the agreed timeframes. The FATF welcomes their commitment and will closely monitor their progress. The FATF does not call for the application of enhanced due diligence measures to be applied to these jurisdictions, but encourages its members and all jurisdictions to take into account the information presented below in their risk analysis.

The FATF identifies additional jurisdictions, on an on-going basis, that have strategic deficiencies in their regimes to counter money laundering, terrorist financing, and proliferation financing. A number of jurisdictions have not yet been reviewed by the FATF or their FSRBs, but will be in due course.

For detailed guidelines: <http://www.fatf-gafi.org/publications/high-risk-and-other-monitored-jurisdictions/documents/increased-monitoring-june-2021.html>

**48. High-Risk Jurisdictions subject to a Call for Action - June 2021**

High-risk jurisdictions have significant strategic deficiencies in their regimes to counter money laundering, terrorist financing, and financing of proliferation. For all countries identified as high-risk, the FATF calls on all members and urges all jurisdictions to apply enhanced due diligence, and, in the most serious cases, countries are called upon to apply counter-measures to protect the international financial system from the money laundering, terrorist financing, and proliferation financing (ML/TF/PF) risks emanating from the country. This list is often externally referred to as the “black list”. Since February 2020, in light of the COVID-19 pandemic, the FATF has paused the review process for countries in the list of High-Risk Jurisdictions subject to a Call for Action, given that they are already subject to the FATF’s call for countermeasures. Therefore, please refer to the statement on these jurisdictions adopted in February 2020. While the statement may not necessarily reflect the most recent status of Iran and the Democratic People’s Republic of Korea’s AML/CFT regimes, the FATF’s call for action on these high-risk jurisdictions remains in effect.

<http://www.fatf-gafi.org/publications/high-risk-and-other-monitored-jurisdictions/documents/call-for-action-june-2021.html>