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SHAPING VIBRANT INDIA

Grant Thornton Bharat - RBI Regulatory Insights

April 2024

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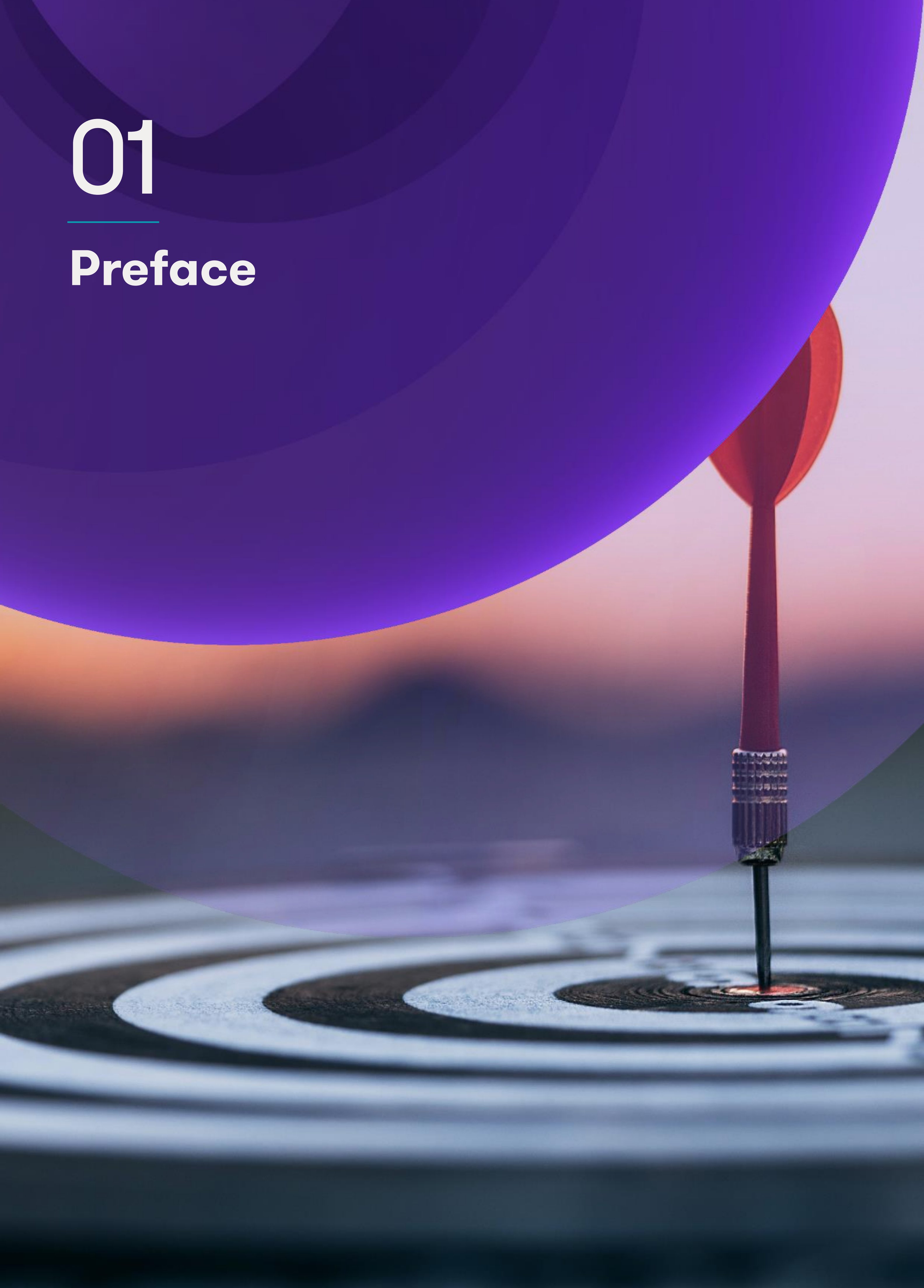
Preface



The Indian economy amid ongoing elections, efforts to maintain impartiality are evident as discussions focus on the electoral process without taking sides. Simultaneously, regulatory bodies are intensifying their efforts to enhance governance functions within regulated entities. These initiatives involve regular meetings with governance heads to reinforce compliance standards and ensure robust oversight mechanisms are in place. Such endeavors signify a concerted commitment to bolstering transparency and accountability across the financial sector, irrespective of the political landscape.

There has been notable activity in the gold loan sector, with the Reserve Bank of India (RBI) taking proactive measures to ensure compliance with tax laws and cleanliness of books. The focus on this sector underscores the importance of transparency and adherence to regulations in financial transactions involving gold. By implementing measures to uphold tax laws and maintain the integrity of financial records, the RBI aims to foster trust and stability in the gold loan market, safeguarding both lenders and borrowers alike.

The Indian rupee has largely remained within a stable range against the US dollar, mirroring broader currency trends and geopolitical shifts. This stability, amid fluctuating crude oil and gold prices, serves as a key factor in managing import-driven inflation. However, the current scenario presents a nuanced challenge as domestic factors, including uncertainty surrounding the monsoon season, could potentially contribute to upward pressure on prices. A steady rupee may provide some relief against inflationary pressures.

The upcoming RBI amendments are crucial. They represent a strategic effort to stabilize the economy, enhance credit flow, and position India on a path toward sustained growth amid global uncertainties. In April 2024, the repo rate remained unchanged at 4%, and the reverse repo rate was also unchanged at 3.35%.

This document aims to cover the impact of several key regulatory updates introduced by the Reserve Bank of India (RBI) to strengthen the financial sector in April 2024. On April 30, the RBI issued a Guidance Note on Operational Risk Management and Operational Resilience, emphasizing the need for robust risk management frameworks. The following day, the Fair Practices Code for Lenders – Charging of Interest was released to ensure transparency and fairness in lending practices.

A significant development occurred on April 26 with the framework for the voluntary transition of Small Finance Banks to Universal Banks, aimed at broadening their operational scope. On the same day, updated guidelines for Foreign Portfolio Investors (FPIs) regarding investment limits in debt and Credit Default Swaps were introduced to streamline investment processes and enhance market stability. Additionally, a circular on April 23 permitted Small Finance Banks to deal in rupee interest rate derivatives, promoting better risk management. The introduction of the Key Facts Statement (KFS) for loans and advances on April 15 was a major step towards consumer protection by providing clear loan information.

These measures highlight the RBI's comprehensive approach to enhancing resilience, fairness, and transparency in the financial sector.

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Impact assessment of regulatory changes in April 2024

Guidance Note on Operational Risk Management and Operational Resilience

RBI/2024-25/31 DOR.ORG.REC.21/14.10.001/2024-25 dated 30 April 2024

Applicability

This Guidance Note applies to a broad range of financial institutions in India to strengthen overall risk management and resilience in the financial sector. Here is a breakdown:

- Scheduled Commercial Banks: This includes both public and private sector banks, excluding Regional Rural Banks, Local Area Banks, and Primary (Urban) Co-operative Banks.
- Co-operative Banks: This encompasses Primary (Urban) Co-operative Banks, State Co-operative Banks, and Central Co-operative Banks.
- All-India Financial Institutions: This includes institutions like Export-Import Bank of India (EXIM Bank), National Bank for Agriculture and Rural Development (NABARD), National Housing Bank (NHB), Small Industries Development Bank of India (SIDBI), and National Bank for Financing Infrastructure and Development (NaBFID).
- Non-Banking Financial Companies (NBFCs): This category includes Housing Finance Companies and other NBFCs operating in India.

This wider scope ensures a more comprehensive approach to operational risk management across the entire financial system. It reflects a proactive approach by regulators to strengthen the resilience of the financial system and safeguard against potential disruptions or crises.

Background and Objective

The Reserve Bank of India (RBI) released a new Guidance Note on Operational Risk Management and Operational Resilience on 30 April 2024 (hereinafter referred to as 'Revised guidelines'). This replaces the previous Guidance Note from 14 October 2005. It aims to align regulatory guidance with international best practices set by the Basel Committee on Banking Supervision (BCBS) on managing operational risk and building operational resilience. This is line with the RBI's Master Direction on Minimum Capital Requirements for Operational Risk dated 26 June 2023 with the objective of ensuring sufficient regulatory capital against its exposures arising from operational risk.

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The scope of the revised guidelines applies to all Commercial Banks, all Primary (Urban) Co-operative Banks/State Co-operative Banks/Central Co-operative Banks, all All-India Financial Institutions (viz., Exim Bank, NABARD, NHB, SIDBI, and NaBFID) and all Non-Banking Financial Companies including Housing Finance Companies.

The revised guidelines from the RBI takes a "one-size-fits-many" approach. It provides a core set of principles that can be adapted by different types of financial institutions (referred to as Regulated Entities - REs). This flexibility ensures smooth implementation regardless of the RE's size, location, or risk profile. The regulator has now adopted an approach that defines 17 principles covering the key elements of operational risk management and operational resilience across three pillars – 'Prepare and protect', 'Build Resilience' and 'Learn and Adapt'.

The guidance aims to strengthen existing Operational Risk Management Frameworks (ORMFs) and emphasizes building "operational resilience." This means REs can adapt and recover from disruptions, ensuring critical operations continue to function smoothly. The operational risk management evolution is heading towards a proactive framework which requires the industry to discard the rear-view mirror approach, further, to evaluate the uniqueness of business processes and its interdependencies and interconnections, continuously learn and adapt from the incidents and failures and in general increase preparedness and resilience of the organisation. The guidance note has been drafted based on the Basel Committee on Banking Supervision (BCBS) principles documents which was issued in March 2021 bringing in alignment in the way the regulated entities should view their mechanism for building operational resilience.

Key Changes

Applicability

This regulation is now applicable to all Commercial Banks, all Non-Banking Financial Companies (NBFCs), all co-operative banks, and all All-India Financial Institutions (AIFIs).

Focus on Operational Resilience

The revised guidelines shifts from focusing solely on operational risk management to emphasizing operational resilience. This change reflects a more holistic approach where operational resilience is viewed as the outcome of robust operational risk management practices. It emphasis on the importance to build operational resilience, which means being prepared to handle disruptions and minimize their impact. Following are some key points in building operational resilience:

Important points:

- Focus on effective risk management: Strong risk identification, assessment, mitigation, and monitoring are the foundation for operational resilience.
- Accepting disruptions: Disruptions are inevitable, so REs need a plan to respond and recover quickly.
- Flexibility and adaptability: REs should be able to withstand, absorb, adapt, and recover from disruptions with minimal impact on critical operations.
- Management commitment: Management focus on response and recovery, assuming failures will occur, is crucial for building resilience.
- Reduced impact: A resilient RE suffers fewer operational disruptions and losses, protecting critical services and functions.

By implementing these elements, REs can build a strong foundation for operational resilience, ensuring they can weather disruptions and continue serving their customers effectively.

Business Continuity

REs need a plan to ensure critical operations continue even during disruptions.

Third-Party Dependencies

Managing reliance on external vendors is essential for resilience.

Technology Reliance

The technology infrastructure needs to be robust to support operational continuity.

Holistic Approach

Resilience requires integrating elements like business continuity, third-party risk management, and cyber risk management into a comprehensive framework.

Critical Operations Focus

Identify and prioritize critical operations to ensure their resilience.

Alignment with Recovery Plans

Operational resilience planning should align with existing recovery and resolution plans for financial system stability.

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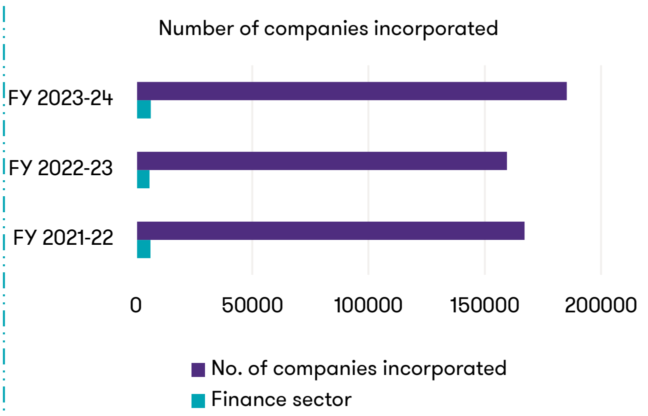
The surge in company incorporations shows the growth potential of India's corporate sector bringing in an overall increase in economic development. This supports the need for a resilience plan due to competitive pressures.



Source: MCA Monthly Information Bulletin for March 2024, March 2023, March 2022

Three Lines of Defence

The RBI framework aligns with the principles outlined in the BCBS's 2015 Corporate Governance Guidelines and the FSB's 2013 Principles for an effective risk appetite framework. This ensures a globally consistent approach to operational risk management in banking. It emphasizes clear roles and responsibilities, adequate resources, and effective communication between the lines. The note explicates the 'Three lines of defence model' wherein – a Business unit forms the first line of defence; organisational operational risk management function (including compliance function) forms the second line of defence; and Audit function forms the third line of defence. The 3LoD framework promotes effective collaboration between different functions within a bank, creating a robust shield against operational risks. This approach safeguards individual REs by promoting a layered approach to risk mitigation and contributes to the stability of the entire financial system.

Three Lines of Defence Model: Broader Responsibilities

First Line (Business Unit Management)

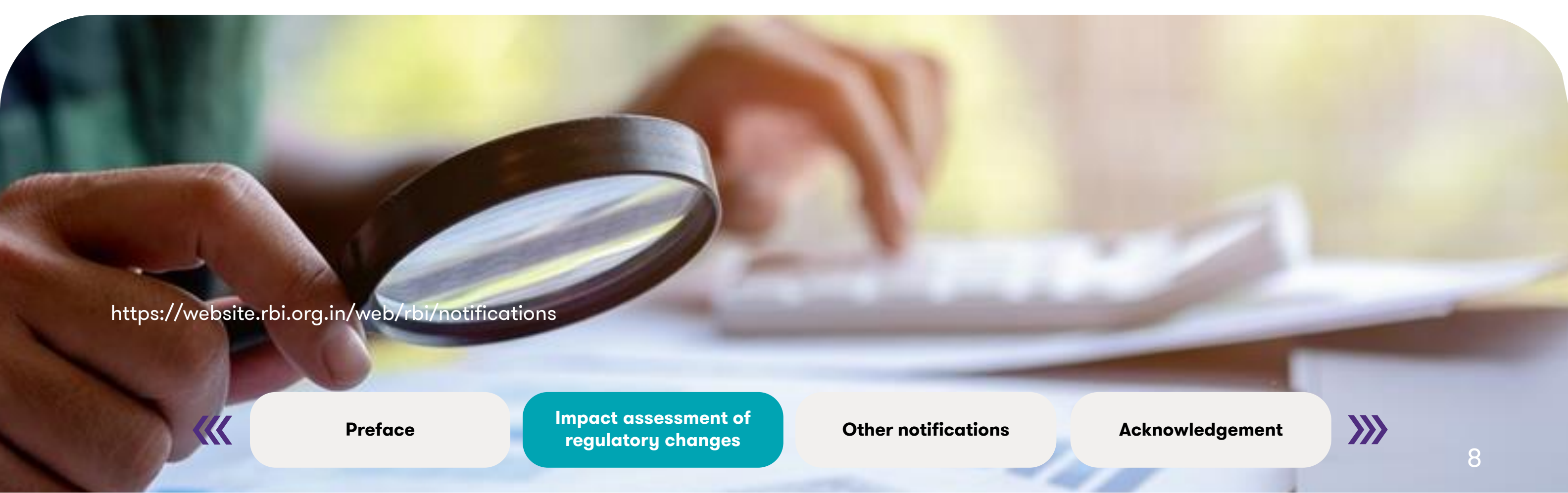
- Identifies and assesses operational risks within their business areas
- Implements controls to mitigate those risks
- Reports risk profiles and adherence to risk appetite/tolerance

Second Line (Organisational Operational Risk Management Function - OORF)

- Provides independent oversight of business unit risk management
- Develops and maintains risk management policies, standards, and training
- Reviews risk identification, controls, and risk tolerance

Third Line (Audit Function)

- Conducts independent reviews to assure the Board of the effectiveness of the ORMF
- Reviews the operation of risk management process
- Validates risk quantification methodologies and verifies control design and implementation
- Identifies gaps in the ORMF and reports to the Board



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Organisational Set-up

The revised guidance note describes briefly on the principles that the board and senior management can adhere to when setting up the organisation from an operational risk management and resilience perspective. By implementing the 3LoD framework and following the principles outlined in the revised guidance note, banks can create a standard organisational setup for effective operational risk management.

This approach enables a stronger risk governance and a more robust operational risk management framework (ORMF), ensures clear lines of responsibility, better risk culture across the organisation and equips the organisation to identify, assess, and mitigate operational risks effectively.

By fortifying our operational resilience against potential disruptions, we can ensure continued service delivery and achieve alignment with the best practices for financial institutions established by the Basel Committee on Banking Supervision (BCBS) and the Financial Stability Board (FSB).

The key principles laid out in revised guidance note to ensure setup on effective operational risk management framework and resilience process for an organisation are Governance and Risk Culture, Integrated Operational Risk Management Framework (ORMF), Responsibilities of Board of Directors and Senior Management, Risk Appetite and Tolerance, Governance Structure & Risk Management Environment - Identification and Assessment.

Change Management

Principle on Change Management for Effective Operational Risk Management emphasizes the importance of a comprehensive change management process for REs (Regulated Entities) to effectively manage operational risks. A well-defined change management process helps assess these evolving risks throughout the change lifecycle. Changes in an RE's business, such as new products, markets, processes, or systems, can increase operational risk exposure. The process should involve all three lines of defense within the RE's risk management framework. By following these guidelines, REs can ensure a smooth and risk-managed approach to change while minimizing operational risk exposure.

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Senior Management

Ensure a comprehensive, well-resourced, and well-communicated change management process.

First Line of Defense

Conduct operational risk and control assessments for proposed changes. This includes identifying and evaluating risks during decision-making, planning, implementation, and post-implementation review phases.

Second Line of Defense (OORF)

Challenge the assessments from the first line of defense and monitor control implementation or remediation actions throughout all change phases. Ensure relevant control groups (e.g., finance, legal) are involved.

Third Line of Defense

May review the change management process based on their defined mandate.

Change Management Process

The RE should have clear policies and procedures for change identification, management, approval, and monitoring. The review and approval process for new products/activities/processes should consider:

01 Inherent risks, residual risk, including legal, IT, and model risks

02 Changes to the RE's risk profile, appetite, and tolerance

03 Necessary controls, risk management processes, and mitigation strategies

04 Changes to risk thresholds or limits

05 Procedures and metrics to assess, monitor, and manage risks

06 Investment in human resources and technology infrastructure should be considered before implementing changes

07 Changes should be monitored during and after implementation to identify unexpected risks

Managing Third-party Dependencies for Operational Resilience

This principle emphasizes the importance of managing dependencies on third-party relationships to ensure operational resilience. REs (Regulated Entities) must conduct risk assessments and due diligence before entering into any agreement with a third party (including internal group entities) that supports critical operations. This risk assessment should consider the third party's operational resilience capabilities to ensure they can safeguard the RE's critical operations during normal circumstances and disruptions.

The Board of Directors and Senior Management are responsible for overseeing third-party risk management and implementing effective policies to mitigate these risks.

Effective third-party risk management involves evaluating the necessity and suitability of third-party services, conducting thorough due diligence, and carefully structuring agreements to address data ownership and termination rights. Organisations should implement programs to manage and monitor third-party risks, maintain a register of third-party relationships, and develop clear contracts outlining responsibilities and accountability. Supervisory authorities must have access to third-party information. Business continuity planning should include contingency plans and exit strategies to maintain operations during third-party disruptions. These plans should evaluate the substitutability of third-party services and consider alternatives like in-house solutions to ensure resilience.

Managing complex supply chains requires understanding the entire supply chain, including indirect dependencies on downstream providers. Contracts with primary service providers should hold them accountable for their subcontractors' performance and risk management practices to mitigate potential vulnerabilities and ensure transparency.

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Continuous Feedback Mechanism

The principle on continuous improvement through feedback systems for operational resilience highlights the importance of fostering a learning environment that encourages continuous improvement of their Operational Risk Management Framework (ORMF) through effective feedback mechanisms in REs (Regulated Entities). Operational approaches and technologies evolve over time, so operational resilience practices need to adapt accordingly. Learning from experiences, both positive and negative (disruptions or incidents), is crucial for improvement. REs can maintain optimal operational resilience through continuous improvement based on ongoing learnings.

To build a culture of learning, RE must integrate operational resilience into all strategic decisions made by the RE and Develop robust feedback systems to create a positive learning environment.

Effective feedback systems

- Proactively identify and assess potential operational risks, considering their type, nature, and severity
- Pinpoint vulnerabilities that need to be addressed
- Develop control and mitigation measures to manage identified risks
- Analyze real-world operational incidents or disruptions, even if they occur despite mitigation measures
- Use this analysis to update the understanding of potential risks and adjust control and mitigation measures accordingly
- Incorporate identified errors or mistakes in existing controls and processes to ensure rectification and updates

Information and Communication Technology (ICT) Risk Management for Operational Resilience

This principle emphasizes the importance of robust ICT (Information and Communication Technology) risk management for REs (Regulated Entities) to ensure operational resilience. REs must implement a comprehensive ICT risk management program aligned with their Operational Risk Management Framework (ORMF). This program should ensure a resilient ICT infrastructure with robust cybersecurity measures. ICT systems and security should fully support and facilitate the delivery of critical operations focusing on Business continuity.

Following are the stages in building an effective ICT Risk management:

- Focus on Business Continuity
- Risk Mitigation
- Documented ICT Policy
- Board and Senior Management Oversight
- Continuous Improvement
- Planning for Stressed Scenarios

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Mapping Interconnections and Interdependencies for Operational Resilience

This principle focuses on identifying and documenting the critical connections within an RE (Regulated Entity) that are essential for delivering critical operations. This mapping exercise helps ensure operational resilience in the face of disruptions. Once critical operations are identified, the RE must create a documented map outlining the people, technology, processes, information, and facilities involved. This map should also detail the interconnections and interdependencies between these elements, highlighting how they contribute to delivering critical operations. Overall, this principle emphasizes the importance of understanding the intricate web of connections that support critical operations. By mapping these interdependencies, REs can proactively identify and address potential weaknesses, ensuring a more resilient and robust operational environment.

Considerations in Mapping:

- The mapping process should consider both internal and external dependencies, including those reliant on third-party service providers or intra-group arrangements.
- Existing recovery and resolution plans can be leveraged to define critical operations and ensure alignment between operational resilience approaches and the documented maps.
- The level of detail in the map should be sufficient to identify potential vulnerabilities and support testing the RE's ability to maintain critical operations during disruptions. This risk appetite and tolerance for disruption should be factored into the mapping approach.
- The mapping exercise should pinpoint weaknesses in critical operation delivery and identify areas where existing recovery and resolution plans can be applied. Examples of vulnerabilities include concentration risk (overreliance on a single source), single points of failure (no backup system), and limited ability to replace service providers or resources.
- Additional Considerations for Group Members: If the RE belongs to a larger group, the mapping process must account for any additional risks arising from other group members that could impact its ability to respond to severe disruptions.

Benefits of Mapping

- Pinpointing vulnerabilities in critical operation delivery.
- It helps determine where existing recovery and resolution plans can be used.
- Identifies risks like: Concentration risk (reliance on a single source), Single points of failure (no backup plan), Limited ability to replace service providers or resources

Incident Management for Operational Resilience

This principle focuses on developing and maintaining effective response and recovery plans for managing incidents that could disrupt critical operations of an RE (Regulated Entity). REs must establish and implement response and recovery plans aligned with their risk appetite and tolerance for disruption. These plans should address how to manage incidents that could impact the delivery of critical operations. REs should continuously improve their incident response and recovery plans by incorporating lessons learned from past incidents.

Components of Effective Incident Management:

1. Incident Response and Recovery Inventory

- These procedures should outline the steps to be taken during an incident and how they connect with existing business continuity, disaster recovery, and other relevant plans.

2. Incident Management Lifecycle

- The incident management process should address the entire lifecycle of an incident, typically including:
  - Incident classification: Incidents should be categorized based on predefined criteria (e.g., time to recover) to prioritize resource allocation effectively.
  - Incident response and recovery procedures: These procedures should outline the steps to be taken during an incident and how they connect with existing business continuity, disaster recovery, and other relevant plans.

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Communication plans:

- REs should have communication plans for both internal and external stakeholders (including regulatory authorities). These plans should detail:
- Internal communication - Clear escalation protocols for communicating with key decision-makers, operational staff, and third parties (if necessary).
- External communication - Strategies for communicating with customers, stakeholders, and regulators during disruptions.

Performance metrics and lessons learned:

Incident response and recovery procedures should be regularly reviewed, tested, and updated based on performance metrics and lessons learned from past incidents (including both internal experiences and those of others). This includes identifying and addressing the root causes of incidents to prevent future occurrences.

Learning from all incidents:

The incident management program should incorporate lessons learned from all incidents impacting the RE, including those arising from dependencies on third parties and intra-group entities.

Calculation of Operational Risk

The revised guidance note on Operational Risk Management and Operational Resilience omits two sections from the repealed version dated 14 October 2005. These are:

- Operational Risk Capital Calculation: This section is no longer relevant because the REs (Regulated Entities) covered by the Guidance Note (Local Area Banks, Small Finance Banks, etc.) don't need to maintain separate regulatory capital for operational risk. Banks (Public Sector, Private, and Foreign) should refer to other regulations for their capital calculation requirements in Master Circular – Basel III Capital Regulations
- Operational Loss Event Type Classification: A separate classification system for operational loss events is not included because a detailed one already exists in the "Master Direction on Minimum Capital Requirements for Operational Risk" dated 26 June 2023. REs can reference this direction for the classification.

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Impact Assessment

The principles discussed in the guidance note, although indicative in nature, are generally accepted and followed in banks but have significantly impacted the other entities which have been covered in the gamut of this guidance note. Regulated Entities (REs) need to conduct a thorough mapping process to pinpoint and document their crucial operations along with the connections and dependencies that uphold these operations. This step isn't just about uncovering vulnerabilities but also about ensuring that all vital aspects contributing to the entity's operational resilience are recognized and handled effectively. Immediate steps to take include conducting detailed risk assessments and documenting all findings & developing a standardized approach to risk management.

It is now essential to synchronize Operational Risk Management Frameworks with the updated principles detailed in the Guidance Note. In this digital age, effective change management, incident management, and third-party dependency management have become essential elements in addressing operational risks. RE's should take steps in establishing a strong feedback mechanism and analyzing the feedback to extract actionable insights to ensure continual enhancement and adaptation to emerging challenges.

Risk that are typically covered by operational risk framework:

- 01 Regulatory compliance
- 02 Financial Crime compliance
- 03 Fiduciary
- 04 Political Risk
- 05 Physical Risk
- 06 Accounting
- 07 Tax
- 08 Internal Fraud
- 09 External Fraud
- 10 Continency Risk
- 11 Information Security
- 12 People
- 13 System
- 14 Projects
- 15 Operations
- 16 Legal

Questions one should be able to answer:

- Are you confident in your control measures, and can you provide evidence of their effectiveness?
- Do you have a clear understanding of which risks are acceptable and which are not?
- Are you aware of the most significant residual risks within your business?
- Do you have a comprehensive understanding of your overall risk profile?
- Do you have insights into the current state of your control environment?
- Do you address risk-related issues promptly enough to regain control in a timely manner?

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The impact on the regulated entities stemming from the guidance note is as follows:

Commercial Banks

Public, private, and international banks, alongside specialized institutions like small finance banks and payments banks, require significant financial commitments to synchronize their activities with regulatory directives. This encompasses technology enhancements, recruitment of risk management specialists, and upskilling of current personnel. Smaller banks, notably small finance and payments banks, might require support in implementing scalable, cost-efficient, and thorough risk management solutions.

Co-operative Banks

Co-operative banks face challenges due to limited resources. Compliance with extensive guidelines is difficult because they operate with fewer technical and financial resources compared to commercial banks. Additionally, there's a significant need for training personnel in these institutions to handle sophisticated risk management tools and practices.

All-India Financial institutions

Institutions like NABARD, NHB, SIDBI, and Exim Bank face challenges due to complex risk profiles and policy alignment issues. Firstly, they deal with a diverse range of financial products and services, each having complex risk profiles that require sophisticated management strategies. Secondly, aligning internal policies with the broad requirements of the guidance while still supporting sector-specific financial needs can be challenging.

NBFCs

NBFCs, including housing finance companies, face challenges due to diverse operations and regulatory scrutiny. Their diverse activities may pose risks requiring customized risk management approaches. Further, they are subject to heightened regulatory scrutiny, demanding diligent compliance efforts that can be resource-intensive.

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Regulators

The RBI faces challenges in comprehensive monitoring and consistent application of guidelines across financial institutions. Ensuring adherence demands enhanced monitoring capabilities, possibly requiring more resources. Further, applying guidelines consistently across diverse institutions requires a flexible yet firm regulatory approach.

Implementing these guidelines offers several opportunities for banks. It helps them become more resilient against disruptions, reducing downtime and financial losses. Further, robust risk management can boost customer and investor confidence, attracting more business and improving competitiveness. Lastly, adapting to these guidelines fosters innovation, especially in digital banking, leading to better customer experiences and new revenue sources.

As financial institutions aim to improve their operational risk management, there's expected to be higher demand for advanced ICT solutions, cybersecurity services, and related technologies. Technology providers can innovate by creating tailored solutions that address the specific requirements of the financial sector in response to these new regulations.

Enhancing operational resilience in the financial sector requires a comprehensive strategy that integrates advanced technology, thorough training programs, and strategic partnerships. By prioritizing these aspects, stakeholders can not only meet the rigorous RBI standards but also effectively navigate and minimize operational risks in a dynamic financial environment. Proactive collaboration among all stakeholders is crucial to fostering a resilient financial landscape capable of thriving amidst operational challenges.

For further insights on this, you may also refer our Operational Risk Management and Operational Resilience – building a resilient future thought leadership document.

Key Facts Statement (KFS) for Loans & Advances

RBI/2024-25/18 DOR.STR.REC.13 /13.03.00/2024-25 dated 15 April 2024

Applicability

Basis entity type

- Commercial Banks (including Small Finance Banks, Local Area Banks and Regional Rural Banks, excluding Payments Banks)
- Primary (Urban) Co-operative Banks, State Co-operative Banks and Central Co-operative Banks
- NBFCs (including HFCs)

Basis loan type

- Retail lending by all Regulated Entities ("REs")
- MSME term loans by all REs
- Digital lending by any RE
- Loans by Scheduled Commercial Banks ("SCBs") to individual borrowers
- Micro-finance loans by NBFC-MFIs and other entities

Background and Objective

KFS is a summarized form of the terms and conditions of a loan offering. KFS is in addition to sanction letter issued by the lenders. The objective of providing KFS in addition to a sanction letter is to facilitate the borrowers in understanding the terms of loan in a concise manner, comparing terms with loan offered by other lenders, and thus taking an informed decision.

Previously, different regulations existed for Key Facts Statements (KFS) across various loan categories offered by different lenders. This created confusion for borrowers and limited their ability to compare loan options effectively. RBI in its Statement on Developmental and Regulatory Policies dated Feb 8, 2024 stated its decision to mandate REs to provide KFS to borrowers for all retail and MSME loans.

The RBI aims to standardize KFS format and information disclosed for all lenders and loan types. It empowers the borrowers with clear and concise loan details to make informed decisions ensuring borrowers understand the true cost of credit (APR) and all associated charges.

Key Changes

The regulation has been brought to extend the scope to all lenders (Banks, NBFCs, Co-operatives) offering retail and MSME loans. A standardized format of KFS is provided by the KFS Circular which will help the borrowers to compare between loans provided by different lenders. The current framework of KFS format covered in January 22, 2015, stands repealed w.e.f. October 1, 2024, and this KFS Circular shall be made applicable.

On comparing with the KFS formats which are covered under the RBI Circular on Display of information by banks dated January 22, 2015, Master Direction – Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022 and Guidelines on Digital Lending, the KFS Circular and the new format covers the below:

- Amends the computation of APR by including all third-party charges
- Introduces validity period within which the borrower can acknowledge the KFS
- Requires providing name of the funding co-lender along with blended rate of interest

Impact Assessment

Standardized KFS may lead to more competitive loan offerings and improved financial literacy among borrowers. This amendment is a significant step towards promoting borrower protection and a more transparent lending environment in India which in line with the Fair Practices Code for Lenders – Charging of Interest circular dated 29th April 2024. Following are the actionable for respective RE's:

- **REs engaged into digital lending**: Effectively, REs that are engaged in digital lending, are currently also required to provide KFS to the borrowers, irrespective of the loan product. Such REs will have to provide KFS as per the new format for all new loans and top up to existing loans, w.e.f. October 1, 2024;
- **In terms of corporate loans**: This KFS Circular is applicable only for loans to MSMEs i.e., other corporate loans are not included.

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- **SCBs:** SCBs providing loans to individuals and REs providing micro finance loans are also currently required to provide KFS. Such REs will have to provide KFS as per the new format for all new loans and top up to existing loans, w.e.f. October 1, 2024;
- **Other REs** that are engaged in physical lending only and providing – retail loans, MSME loans will be required to place necessary systems and processes to implement the KFS Circular;
- **HFCs:** The KFS Circular is also applicable on HFCs. Further, it is applicable on retail loans given by REs which includes home loans. That is to say, the HFCs will also have to provide KFS to the borrowers for home loans. Although, it is important to note that para 85.8 of the Master Direction Non- Banking Financial Company – Housing Finance Company (Reserve Bank) Directions, 2021 require the HFCs to provide Most Important Terms and Conditions (MITC) for home loans. The relevant para reads as under:
  - 85.8. To facilitate quick and good understanding of the major terms and conditions of housing loan agreed upon between HFC and the individual borrower, HFCs shall obtain a document containing the most important terms and conditions (MITC) of such loan in all cases in the suggestive format as per Annex XII. The document will be in addition to the existing loan and security documents being obtained by the HFCs. HFCs are advised to prepare the said document in duplicate and in the language understandable by the borrower. Duplicate copy duly executed between the HFC and the borrower should be handed over to the borrower under acknowledgement.
  - The KFS Circular does not repeal the above para, therefore in absence of any clarification, the HFCs should comply with both MITC and KFS.

Since the KFC Circular becomes applicable from October 1, 2024, as an immediate actionable, the REs will have to capacitate their existing systems, APR calculation is required to be put in place. Validity period for KFS needs to be captured in the loan systems / loan journey. The KFS Circular should be placed before the Board for its noting and necessary implementation.

Loan Process Journey:

1. Submission of loan application
2. Verification, KYC checks and credit underwriting
3. Loan sanction, sanction letter + KFS provided
4. ★ KFS acknowledgement
5. Post sanction verification
6. Execution of loan agreement
7. Loan disbursement*

★ KFS is provided with sanction letter. The KFS has a validity of period of at least 3 working days for loans having tenor of 7 days or more and a validity period of working day for loans having tenor of less than 7 days.

The format for KFS is provided in Annex A of the KFS Circular. The format is divided into two parts; part 1 provides quantitative information (pts 1-10), i.e., interest rate and fees / charges and part 2 provides qualitative information (pts 11-16). Refer this link to view the Contents of KFS.

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Fair Practices Code for Lenders – Charging of Interest

RBI/2024-25/30 DoS.CO.PPG.SEC.1/11.01.005/2024-25 dated April 29, 2024

Applicability

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

Background and Objective

During the RBI on-site inspections by RBI up to March 31, 2023, the regulators have noticed that the lenders are following certain unfair practices. The RBI's directive to review and rectify these practices accentuates the regulator's commitment to ensuring a level playing field for borrowers and promoting ethical lending standards in the financial sector. With the view to promote fairness, and transparency in charging of interest rates by the lenders the regulator has issued the Fair Practices code for Lenders.

Key Changes

The RBI's recent amendment to the Fair Practices Code for Lenders, specifically addressing the charging of interest, highlights a crucial aspect of lending practices that directly impact consumers. The amendment primarily targets three key areas of concerns identified by RBI at several instances:

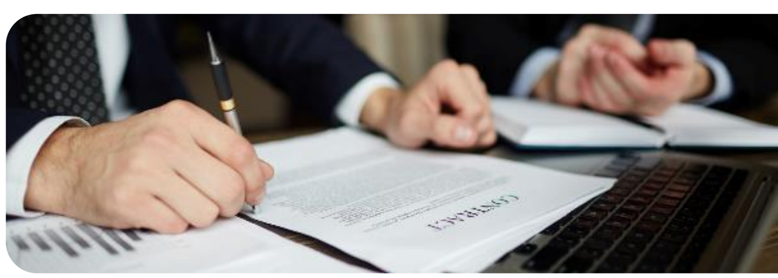
- Charging of Interest: Charging interest from the date of loan sanction or execution of the loan agreement, rather than from the actual disbursal date. This practice results in customers paying interest for a period when they have not yet received or utilized the funds. Additionally, charging interest from the date of the cheque, instead of the date when the cheque is encashed, or the funds are received by the customer.
- Calculation of Interest Period: Charging of interest for the entire month, even if the loan was disbursed or repaid during the course of the month. This practice disregards the principle of charging interest only for the period during which the loan amount is outstanding, leading to overcharging and financial burden on borrowers.
- Advance Collection of Instalments: Some lenders were found to be collecting one or more instalments in advance while reckoning the full loan amount for interest calculation purposes. This practice results in borrowers paying interest on funds they have not yet utilized, further aggravating their financial burden.

The regulator has encouraged the REs to refund such excess interest and other charges to the customers. Further, RBI emphasis on encouraging REs to adopt online account transfers for loan disbursals highlights a shift towards modern and efficient payment mechanisms while mitigating the risks associated with cheque-based transactions.

Impact Assessment

These unfair practices not only violate the principles of fairness and transparency advocated by the Fair Practices Code but also undermine consumer trust in the lending system. The immediate effect of this circular necessitates REs to conduct a comprehensive review of their loan disbursal procedures, interest calculation methodologies, and other related practices. System-level changes may be required to align with the prescribed standards and address the identified issues effectively. This directive on fair practices promotes a more transparent and fair lending environment for borrowers.

While lenders may face some short-term adjustments, the long-term benefits of increased customer trust and consistency outweigh the potential drawbacks.



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Following are some of the impacts of this circular:

Enhanced fairness & transparency to borrowers

The Fair Practices Code ensures that the terms and conditions of the loan, including the interest rate, are clearly communicated to the borrower by the Regulated Entities (REs). This transparency reduces the risk of misunderstandings or disputes, promoting a fair and ethical lending environment.

Enhanced consumer protection

The Fair Practices Code protects borrowers from unfair lending practices, such as charging exorbitant interest rates or hidden fees. It ensures that borrowers are treated fairly, promoting transparency and ethical conduct in lending.

Enhanced Reputation of the REs

Adhering to fair lending practices enhances the lender's reputation, demonstrating a commitment to ethical business practices and customer satisfaction. It builds trust with borrowers and the community, leading to long-term relationships and positive brand perception.

Competitive Advantage to the REs

Regulated Entities (REs) who follow fair lending practices may have a competitive advantage, as borrowers may prefer to do business with lenders who treat them fairly. This can lead to increased customer loyalty, positive word-of-mouth referrals, and a stronger market position for the lender.

Emphasis on standardized practices

The Fair Practices Code ensures that lenders follow consistent procedures for calculating and applying interest rates. This prevents lenders from arbitrarily raising interest rates on borrowers with weaker credit scores or those with limited bargaining power. By promoting transparency and fairness, this practice helps protect borrowers from predatory lending practices.

Potential system enhancements

The circular mandates banks to conduct a review of their system functionalities to ensure alignment with the regulations issued by the regulator. This requirement is likely to result in increased costs for regulated entities, as they may need to perform system enhancements to comply with the fair practices code for lenders.

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Voluntary transition of Small Finance Banks to Universal Banks

RBI/2024-25/28 DOR.LIC.REC.20/16.13.218/2024-25 dated 26th April 2024

Applicability

RBI on April 26, 2024, issued a circular on "Voluntary transition of Small Finance Banks to Universal Banks" ("Circular"), applicable to all Small Finance Banks ("SFBs"), providing the criteria/path for transitioning from Small Finance Banks (SFBs) to convert into Universal Banks.

Background and Objective

RBI first introduced SFBs in the Indian context in the year 2014, wherein the Regulator issued the "Guidelines for Licensing of Small Finance Banks in the Private Sector" dated November 27, 2014, with the objective of financial inclusion in the society by provision of savings vehicle, supply of credit to small business units, small and marginal farmers, micro and small industries, and other unorganized sector entities, through high technology low-cost operations.

As per the Guidelines, RBI has in total issued 10 licenses to SFBs and specified in the said Guidelines that after gaining experience in dealing with these banks, RBI will consider 'on tap' licensing for these banks. Thereafter, on September 13, 2019, the RBI issued draft guidelines for 'on-tap' licensing for such banks inviting comments from various stakeholders and members of the public and finally on December 05, 2019, issued "Guidelines for 'on-tap' Licensing of Small Finance Banks in Private Sector" ('On-tap Guidelines').

In the aforesaid On-tap Guidelines, the RBI mentions about transitioning of such SFBs into Universal Bank and clarified that such transitioning would not be automatic rather the SFBs would require to apply to RBI for such conversion. The On Tap Guidelines have specified certain conditions for the SFBs to fulfil before applying for such conversion viz. minimum paid-up voting equity capital / net worth requirement as applicable to universal banks, satisfactory track record of performance as a small finance bank for a minimum period of five years etc.

Although, the On-tap Guidelines have specified certain conditions to be fulfilled by the SFBs before applying for conversion into Universal Banks, however, there was not much clarity about the eligibility criteria and process to be followed, and the application process was not defined and the application window was not open, hence RBI, issued the aforesaid Circular dated April 26, 2024, explaining the criteria and requirements for conversion of such SFBs into Universal Banks and the application process.

The conversion of SFBs into Universal Banks will enable new business avenues for the SFBs such as bigger customer base, no sectoral capping on the loan amount, providing wider banking services such as mutual fund services, issuance of different credit cards, diverse loan products, reach to new business segments etc. This move by the RBI will eventually bring more competitiveness in the banking/finance space of the country, creation of new markets, new products offerings as well as more reach to the society at large.

Key Changes

Eligibility Criteria

Though the window is now open for SFBs to apply for conversion into full-fledged Universal Banks, the SFBs are required to follow the eligibility criteria laid down in the aforesaid RBI Circular, the requirements are explained herein below:

- SFBs should have scheduled status with a satisfactory track record of performance for a minimum period of 5 years;
- SFBs should have its shares listed on a recognized stock exchange;
- SFBs should have a minimum net worth of INR 1000 crore as at the end of the previous quarter (audited);
- SFBs should meet the prescribed CRAR requirements;
- SFBS should have a net profit in the last two financial years; and
- SFBs should have GNPA and NNPA of less than or equal to 3 percent and 1 percent respectively in the last two financial years.

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Additional Requirements

In addition to the above, the following shall also be applicable to the SFBs w.r.t. shareholding pattern:

- There is no mandate for an eligible SFB to have an identified promoter. However, the existing promoters of SFB, if any, shall continue as the promoters on transition to Universal Bank;
- There shall be no addition or change allowed while transition to Universal Bank;
- There is no new mandatory lock-in requirement of minimum shareholding for existing promoters in the transitioned Universal Bank;
- There shall be no change to the promoter shareholding dilution plan already approved by RBI;
- The eligible SFBs having diversified loan portfolio will be preferred.

Where to submit and form of application

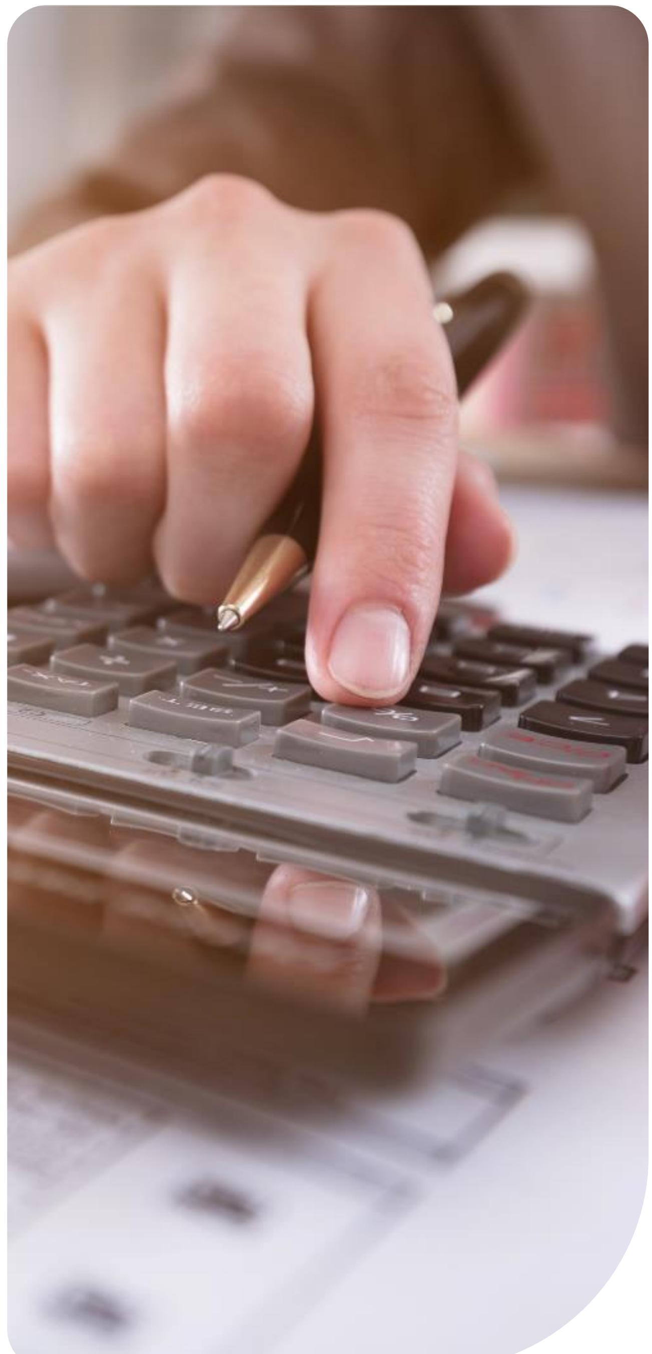
The eligible SFBs may submit their application for conversion in the prescribed Form III as mentioned in Rule 11 of the Banking Regulation (Companies) Rules, 1949, along with other requisite documents, to Department of Regulation, Reserve Bank of India, Central Office, 12th Floor, Central Office Building, Shahid Bhagat Singh Road, Mumbai - 400001.

Along with the application, the eligible SFBs are also required to submit a detailed rationale for such transition. Upon conversion into Universal Bank, the Bank will be subjected to all the norms including NOFHC structure (as applicable) as per the Guidelines for 'on tap' Licensing of Universal Banks in the Private Sector dated August 1, 2016, as applicable, and Reserve Bank of India (Acquisition and Holding of Shares or Voting Rights in Banking Companies) Directions, 2023 dated January 16, 2023.

Impact Assessment

The RBI's decision to open the window for SFBs to apply for conversion into Universal Banks marks an exciting milestone in the banking sector's evolution. Having closely monitored the growth and supervised SFBs for several years, the RBI now feels confident in offering them the opportunity to take the next step. This move not only signifies the maturation of SFBs but also opens up new avenues for expansion and innovation within the banking industry.

Emphasizing the financial health of transitioning SFBs promotes overall stability and fosters a more competitive landscape, with the emergence of dynamic new Universal Banks. The RBI's clear intentions regarding the application process demonstrate a commitment to ensuring the integrity and resilience of the financial ecosystem. By conducting thorough due diligence and carefully selecting applicants, the RBI aims to safeguard the interests of the



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Dealing in Rupee Interest Rate Derivative products - Small Finance Banks

RBI/2024-25/23 DOR.MRG.REC.15/00.00.018/2024-25 dated 23rd April 2024

Applicability

This circular applies to all Small Finance Banks in India, and it is effective from 23rd April 2024.

Background and Objective

Prior to this amendment, Small Finance Banks (SFBs) could only use Interest Rate Futures (IRFs) to manage interest rate risk in their operations. This limited their ability to effectively hedge against fluctuations in interest rates. The objective of this amendment is to empower the SFBs with greater flexibility and a wider range of tools to manage interest rate risk, potentially leading to a more stable and efficient financial system.

Therefore, RBI introduced this circular for SFBs to deal in permissible rupee interest rate derivative products for hedging interest rate risk.

Key Changes

The regulation has been brought so that Small Finance Banks can now deal in a wider range of "permissible rupee interest rate derivative products" besides IRFs. These products are defined in the Rupee Interest Rate Derivatives (Reserve Bank) Directions, 2019. Examples include Interest Rate Swaps, Forward Rate Agreements, etc.

Impact Assessment

Permitting Small Finance Banks (SFBs) to deal in Rupee Interest Rate Derivative (IRD) products can have several benefits:

- Participation in interest rate derivative market enables SFBs to manage their interest rate risk more effectively, potentially leading to an improved financial stability.
- Effective hedging can help SFBs protect their profit margins from interest rate fluctuations.
- Increased participation by SFBs in the interest rate derivatives market can improve overall market liquidity. This means there will be more buyers and sellers, making it easier to execute trades and potentially reducing transaction costs. Improved liquidity benefits the entire financial system.
- It contributes to the development of the domestic derivatives market, making it more robust and refined. This change may encourage the development of new and innovative interest rate derivative products tailored for SFBs.

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Limits for investment in debt and sale of Credit Default Swaps by Foreign Portfolio Investors (FPIs)

RBI/2024-25/27 A.P. (DIR Series) Circular No. 03 dated 26th April 2024

Applicability

This circular applies to all Authorized Dealer Category-I (AD Category-I) banks and their FPI clients and is effective from 26th April 2024

Background and Objective

RBI via this extant guideline has set the limits for investments in debt and sale of Credit Default Swaps by Foreign Portfolio Investors (FPIs). By providing clear guidelines on investment limits and CDS regulations, the circular aims to foster transparency and compliance within the financial ecosystem.

Key Changes

The regulation provides the Investment Limits for Foreign Portfolio Investors (FPIs) in the Indian debt market for the financial year 2024-25

- The regulator has maintained the limits for FPI investment in government securities (G-secs), state government securities (SGSs) and corporate bonds unchanged at 6 %, 2 % and 15 % respectively, of the outstanding stocks of securities for 2024-25. However, there is an overall increase in the limits due to the growth in the outstanding stock of securities.
- All investments by the eligible investors in the ‘specified securities’ shall be considered under the Fully Accessible Route (FAR).
- 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 the FY 2024-25. The entire increase in the limits for state government securities (in absolute terms) has been added to the ‘General’ sub-category of SGSs.
- The aggregate limit of the notional amount of CDS sold by FPIs remains at 5% of the outstanding stock of corporate bonds.

The regulator has advised that the AD Category – I banks may bring the contents of this circular to the notice of their constituents and customers concerned.

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Impact Assessment

The maintenance of the current investment limits in government securities, state government securities, and corporate bonds at 6%, 2%, and 15% respectively, ensures a stable and predictable environment for FPIs. The incremental increase in absolute investment limits for FY 2024-25 supports continued foreign capital inflow, boosting liquidity and potentially lowering borrowing costs for issuers.

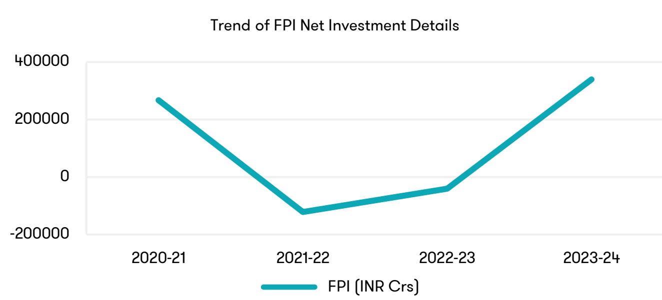
The increase in the limit for SGSs added to the 'General' sub-category further diversifies investment across different types of securities, spreading risk and enhancing market resilience.

Setting the aggregate notional limit of CDS sold by FPIs at 5% of the outstanding stock of corporate bonds, with an additional limit of ₹2,54,500 crore for 2024-25, provides FPIs with tools for managing credit risk. This provision enhances the overall robustness of the corporate bond market by allowing FPIs to hedge against potential defaults, thereby fostering greater confidence among investors.

The increased limits for corporate bonds and the provision for CDS align with the RBI's objectives to deepen the corporate bond market. Higher FPI participation can lead to better pricing, improved liquidity, and greater market depth, which are beneficial for issuers and investors alike.

By maintaining and slightly increasing the limits, the RBI encourages long-term investments in the debt market, which can lead to more stable and predictable capital flows. This stability is crucial for long-term infrastructure projects and other investments that require sustained funding.

Over the past financial year, the USD/INR exchange rate fluctuated between 82 and 83 INR, contributing to the unpredictability of net FPI trends. As a result, the regulator has opted to maintain the existing investment limits for FPIs



Annexure - Contents of KFS

Sr. No.	Particulars	Description
1	Loan proposal no.	This will be specific to the RE and would usually be the lead generation number
2	Type of loan	This would include the loan product i.e., vehicle loan, housing loan, personal loan, etc.
3	Sanctioned amount	The amount of loan which is sanctioned
4	Disbursal schedule	Sanctioned amount may not be same as disbursed amount. The borrower may take disbursement of amount less than the sanctioned amount- the stage wise disbursal is required to be mentioned
5	Loan term	The tenor of the loan
6	Installment details	Equated Periodic Instalments over the tenor of the loan
7	Interest rate and type	This includes the rate of interest and whether fixed and floating interest
8	Fee / charges	This will include all the charges which shall be levied by the borrower on the lender for the loan sanctioned *such as* processing fee, documentation charges, etc. Also, the KFS Circular provides that the fee / charges will include all third-party charges as well, that are routed through the lender. To give an example; in case of a housing loan, if the HFC has tie ups with insurance companies, the insurance charges may be charged from the borrower to be paid to the insurance company. Since, the insurance charges are routed through the HFC, (even though on actual basis), this shall form part of fee / charges.
9	Annual Percentage Rate (APR)	APR is defined as the annual cost of credit to the borrower which includes interest rate and all other charges associated with the credit facility. In other words, APR calculation is done for all the fee / charges as mentioned in sr. no. 8
10	Details of contingent charges	This includes penal charges, foreclosure charges and other contingent charges that shall be levied on happening of such events. Contingent charges are not taken into account for calculation of APR.

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Sr. No.	Particulars	Description
11	Clause of loan agreement relating to engagement of recovery agents	The names of the recovery agencies that have been hired by the RE to act as recovery agent at the time of default
12	Clause of loan agreement which details grievance redressal mechanism	This includes reference of the particular clause in loan agreement which deals with procedure for grievance redressal
13	Phone number and email id of the nodal grievance redressal officer	Details of the grievance redressal officer of the particular RE. In case of digital lending, contact details of grievance redressal officer of the LSP / DLA is also required to be provided
14	Whether the loan is, or in future maybe, subject to transfer to other REs or securitization	The RE will have to mention its intention to transfer / securitize the loan
15	Details relating to co-lending: • Name of co-lenders • Blended rate of interest	In case of co-lending arrangements, the originating lender must provide details of the funding co-lender.
16	In case of digital loans: • Cooling-off period • Details of LSP acting as recovery agent	As per para 8 of the Guidelines on Digital Lending, the RE must provide cooling-off period to the borrower, within which the borrower may decide to exit the digital loan. As per para 5.6, the REs must communicate to the borrowers, details of LSP acting as recovery agent at the time of loan sanction.

Click here to refer the KFS Notification again

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Other notifications in April 2024

Other notifications in April 2024

Release date	Particulars	Brief Instructions
Apr 26, 2024	Implementation of Section 51A of UAPA,1967: Updates to UNSC's 1267/ 1989 ISIL (Da'esh) & Al-Qaida Sanctions List: Amendments in 01 Entry	The circular informs regulated entities about updates to the UNSC's 1267/1989 ISIL (Da'esh) & Al-Qaida Sanctions List. It highlights an amendment to an entry regarding an individual named Sanaullah Ghafari, who is associated with ISIL-K. The circular directs regulated entities to ensure compliance with Section 51 of the Master Direction on Know Your Customer (MD on KYC) and the UAPA Order. It provides links to access further information on sanction measures, exemptions, and updated lists of sanctioned individuals and entities. Regulated entities are instructed to forward any delisting requests to the Ministry of Home Affairs and to comply meticulously with UNSC communications.
Apr 25, 2024	Foreign Exchange Management (Foreign Currency Accounts by a person resident in India) (Amendment) Regulations, 2024	This RBI circular announces an amendment to the Foreign Exchange Management (Foreign Currency Accounts by a person resident in India) Regulations, 2015. It permits individuals resident in India to hold funds raised through External Commercial Borrowings (ECB), American Depository Receipts (ADRs), Global Depository Receipts (GDRs), or direct listing of equity shares of Indian companies on International Exchanges, in foreign currency accounts with banks outside India, subject to compliance conditions. The amendment is effective upon publication in the Official Gazette.
Apr 25, 2024	Foreign Exchange Management (Mode of Payment and Reporting of Non-Debt Instruments) (Amendment) Regulations, 2024	This RBI circular introduces amendments to the Foreign Exchange Management (Mode of Payment and Reporting of Non-Debt Instruments) Regulations, 2019. It enables permissible holders to purchase or subscribe to equity shares of Indian companies listed on International Exchanges. The mode of payment for such transactions includes banking channels or inward remittance from abroad. Sale proceeds (net of taxes) may be remitted outside India or credited to the bank account of the permissible holder. Additionally, it mandates reporting requirements for Authorized Dealer Category I banks and investee Indian companies regarding equity instrument transactions. The amendments are effective upon publication in the Official Gazette.
Apr 25, 2024	Alteration in the name of "AB Bank Limited" to "AB Bank PLC" in the Second Schedule to the Reserve Bank of India Act, 1934	This RBI circular notifies all commercial and co-operative banks about the alteration in the name of "AB Bank Limited" to "AB Bank PLC" in the Second Schedule to the Reserve Bank of India Act, 1934.

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Release date	Particulars	Brief Instructions
Apr 24, 2024	Unauthorized foreign exchange transactions	This RBI circular addresses the issue of unauthorized forex trading by entities offering disproportionate returns to Indian residents. It highlights relevant regulations, including FEMA, 1999, and Electronic Trading Platforms (Reserve Bank) Directions, 2018. Authorized Dealer Category-I (AD Cat-I) banks are instructed to exercise vigilance and caution, reporting any accounts facilitating unauthorized forex trading to the Directorate of Enforcement. They are also directed to inform customers to only engage with authorized persons and platforms, publicizing lists of authorized entities and cautionary lists issued by the RBI. These directives are issued under the Foreign Exchange Management Act, 1999, without prejudice to other legal requirements.
Apr 24, 2024	Master Circular - Bank Finance to Non-Banking Financial Companies (NBFCs)	The Reserve Bank of India on April 24, 2024, has issued Master Direction – Reserve Bank of India (Asset Reconstruction Companies) Directions, 2024, which is applicable to All Asset Reconstruction Companies (ARCs) with immediate effect. This Master Direction consolidates the Master Circular - Asset Reconstruction Companies dated April 03, 2023, and Master Direction - Fit and Proper Criteria for Sponsors - Asset Reconstruction Companies (Reserve Bank) Directions, 2018, dated October 25, 2018. The ARCs shall have a minimum Net owned fund of INR 200 Crore by March 31, 2024, and INR 300 Crore by March 31, 2026.
Apr 18, 2024	Formation of new district in the State of Assam – Assignment of Lead Bank Responsibility	The Reserve Bank of India (RBI) notifies the formation of a new district, Tamulpur, in Assam. Consequently, the Lead Bank Responsibility for Tamulpur district is assigned to State Bank of India with the District Working Code "02Q". This designation is effective immediately. Notably, there are no changes in the Lead Banks of the other districts in Assam.
Apr 16, 2024	Implementation of Section 12A of the Weapons of Mass Destruction and their Delivery Systems (Prohibition of Unlawful Activities) Act, 2005: Designated List (Amendments)	The Reserve Bank of India (RBI) has instructed certain organizations, called Regulated Entities (REs), to strictly follow specific rules laid out in Section 52 of the Master Direction on Know Your Customer (MD on KYC), last updated on January 04, 2024. These rules include guidelines on implementing laws related to preventing illegal activities involving weapons of mass destruction. Additionally, REs must check a list of designated individuals and entities every day to ensure they are not doing business with restricted parties. The Ministry of External Affairs (MEA), part of the Indian government, has made changes to this list, and REs must comply with these updates. They are advised to stay updated with the latest UNSC Sanctions lists available on the UN Security Council's website for full compliance.

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Release date	Particulars	Brief Instructions
Apr 15, 2024	Hedging of Gold Price Risk in Overseas Markets	The Reserve Bank of India (RBI) has introduced a new rule allowing resident entities to hedge their gold price risks using Over-The-Counter (OTC) derivatives, alongside derivatives on exchanges in the International Financial Services Centre (IFSC). This decision, in line with Paragraph 2 of the Statement on Developmental and Regulatory Policies from the Bi-monthly Monetary Policy Statement for 2023-24 and the Master Direction – Foreign Exchange Management (Hedging of Commodity Price Risk and Freight Risk in Overseas Markets) Directions, 2022, aims to provide more flexibility to resident entities managing their gold price exposures. Effective immediately, the Master Direction has been updated accordingly. These instructions are issued under the Foreign Exchange Management Act, 1999 and do not supersede any other legal obligations.
Apr 15, 2024	CIMS Project Implementation - Submission of Statutory Returns (Form A, Form VIII and Form IX) on CIMS Portal	RBI shifts submission of statutory returns (Form A, Form VIII, and Form IX) from XBRL to CIMS portal. Effective June 14, 2024, Form A Return is fortnightly, Form VIII is monthly starting May 2024, and Form IX is annual starting December 31, 2024, exclusively on CIMS. Until then, submit on both portals.
Apr 10, 2024	Alteration in the name of "Sonali Bank Limited" to "Sonali Bank PLC" in the Second Schedule to the Reserve Bank of India Act, 1934	The name of "Sonali Bank Limited" has been updated to "Sonali Bank PLC" in the Second Schedule to the Reserve Bank of India Act, 1934.
Apr 05, 2024	Exclusion of “Kapol Co-operative Bank Limited” from the Second Schedule to the Reserve Bank of India Act, 1934	"Kapol Co-operative Bank Limited" is no longer listed in the Second Schedule to the Reserve Bank of India Act, 1934.

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Acknowledgement

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