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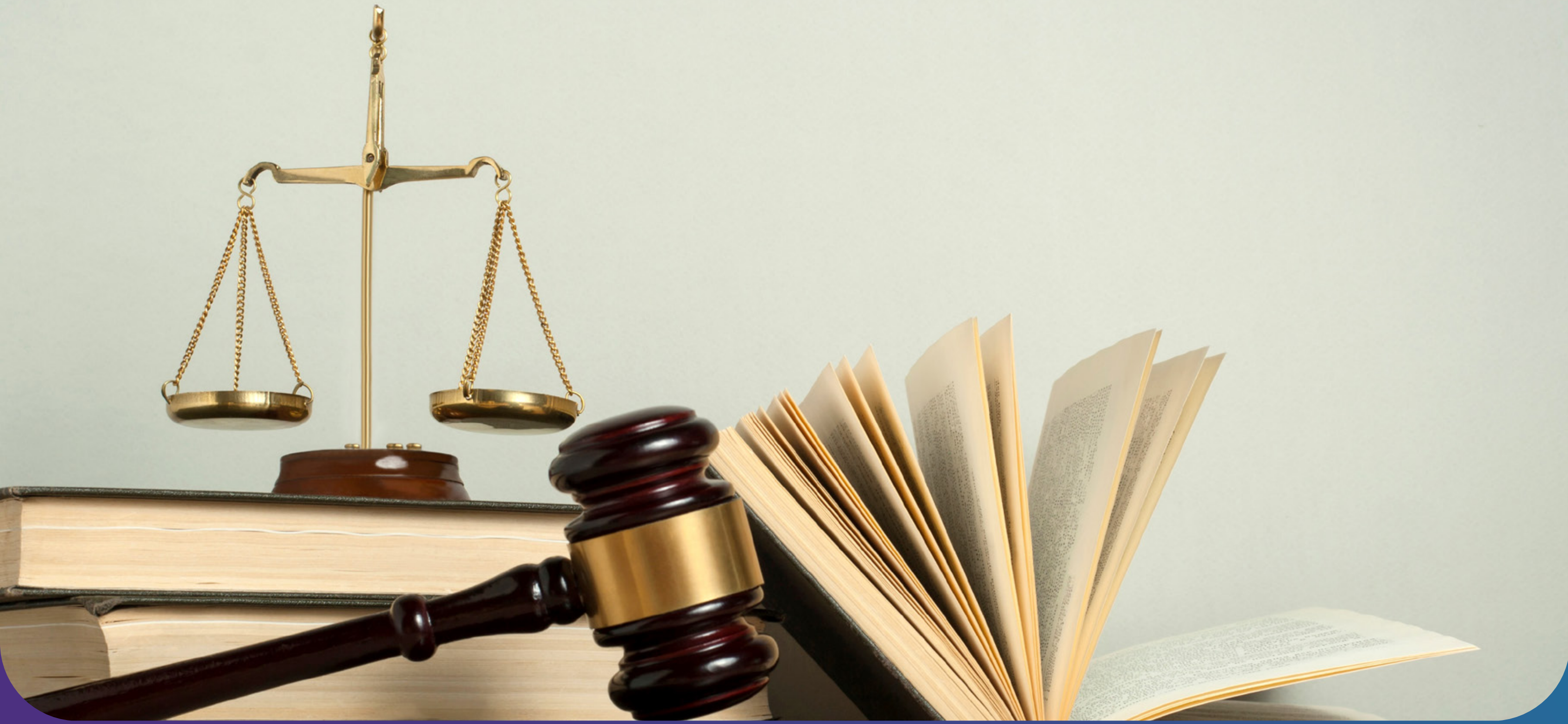
RBI Regulatory Banking Insights

August 2024



Preface

RBI held its 50th meeting of the Monetary Policy Committee in August 2024 and maintained its key interest rates, with repo-rate steady at 6.50% for the ninth consecutive time. This decision aligns with the RBI's ongoing 'withdrawal of accommodation' stance, aimed at managing inflation and ensuring economic stability. Further, standing deposit facility rate to remain steady at 6.25%.

In August, the fifth Global Fintech Fest (GFF) focused on Responsible AI. The Prime Minister praised UPI for its 24/7 banking services and highlighted fintech's role in democratising financial services, mentioning the PM SVANidhi scheme for street vendors. He called for more digital literacy and regulatory measures against cyber fraud, emphasising sustainable economic growth through advanced technologies. He expressed confidence in India's fintech advancements benefiting both India and the world.

In July, the Finance Minister presented the Union Budget 2024-25, introducing positive measures for the banking industry. Key highlights include the Financial Sector Vision and Strategy Document, which outlines a five-year roadmap for coordinated efforts among government, regulators, financial institutions, and market participants. Public Sector Banks (PSBs) will develop their own credit assessment models for MSMEs, enhancing their capacity. MSMEs under stress (SMA) can access credit facilities. The Budget also emphasises affordable housing, boosting the housing finance sector.

In July and August 2024, the RBI imposed penalties on several banks for regulatory non-compliance. Punjab National Bank (PNB) was fined INR 1.31 Crore for not adhering to RBI's directions on loans and KYC norms. CSB Bank was penalised INR 1.81 Crore for violating the Banking Regulation Act and non-compliance with RBI's guidelines on outsourcing financial services and branch authorisation.

According to S&P Global's August 2024 report, the global GDP growth forecast for 2025 remains at 2.7%. The dollar is strengthening against the Indian rupee. The global financial system faces challenges like high public debt, geopolitical tensions, and cyber threats. Despite these uncertainties, India's financial system stands out with strong macroeconomic fundamentals.

In July and August 2024, India's forex reserves saw significant changes. In early August, the reserves hit a new high of USD 674.91 billion, increasing by USD 7.53 billion in just one week. The rise was attributed to robust external sector performance and increased foreign currency assets. However, the reserves had dipped USD 3.47 billion in late July, reflecting the rupee's stress during that period. Additionally, Finance Minister highlighted India's substantial forex reserves of nearly USD 654 billion while presenting the budget in July 2024. This strong reserve position underscores India's economic resilience

This edition of RBI Regulatory Banking Insights covers regulatory updates from July and August 2024. Key changes include revised Master Directions on Fraud for regulated entities, enhancing fraud risk management with new governance frameworks, early warning signals, and red-flagging of accounts. Borrowers will now have a chance to be heard before being classified as fraudulent. Additionally, new Master Directions on Wilful Defaulters aim to identify and address deliberate defaulters within six months of an account becoming an NPA, with stringent reporting and preventive measures. The RBI also issued a circular on the prudential treatment of bad and doubtful debt reserves (BDDR) for cooperative banks, mandating that all provisions be charged as expenses to the P&L account from FY 2024-25, which may reduce profits but will more accurately reflect financial health.

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Impact assessment of regulatory changes in July 2024

Revised Master Directions (MDs) on Fraud Risk Management (FRM) in Regulated Entities (REs)

RBI/DOS/2024-25/118,119 & 120 DOS.CO.FMG.SEC.No.5,6 & 7/23.04.001/2024-25 (Master Directions for Regulated Entities) (Collectively referred as “revised MDs”)

Release date: 15 July 2024

Applicability

The revised MDs become applicable with immediate effect, i.e., 15 July 2024, except the Early Warning Signals (EWS) framework, which shall come into effect within six months from the date of issuance of the revised MDs. Below is the applicability on the basis of type of entity and types of fraud.

Applicability basis entity type (REs):

- Commercial Banks, including RRBs
- All India Financial Institutions
- UCBs, StCBs, CCBs
- NBFC-UL, NBFC-ML and NBFC-BL (with asset size of INR 500 cr & above) (Applicable NBFCs) and HFCs

Applicability basis fraud type:

The MDs cover all kinds of frauds committed by the borrowers, whether occurring in a credit transaction or a non-credit transaction. Also, includes accountability of the staff of the REs, where it is established that the staff members were involved with the borrowers for commission of fraud.

Background and objective

The RBI has issued revised Master Directions (MDs) on Fraud Risk Management (FRM) for REs. The revised MDs repeals the following:

- Reserve Bank of India (Frauds-Classification and Reporting by commercial banks and select FIs) Directions, 2016 – which was applicable on commercial banks excluding RRBs
- Master Circular- Classification and Reporting dated 1 July 2015 – which was applicable on Primary (Urban) Cooperative Banks
- Master Direction – Monitoring of Frauds in NBFCs (Reserve Bank) Directions, 2016 – which was applicable on NBFCs, HFCs
- Further, repeals 36 circulars

The revised MDs have been introduced in the backdrop of the judgement of Hon’ble Supreme Court in the matter of SBI & Ors. v. Rajesh Agarwal & Ors dated 27 March 2023, which emphasises on the requirement of providing opportunity of being heard to the borrowers by the lenders, before classifying their account as fraud.

It is a known fact that classifying a person as fraudulent has huge implications. As per para 4.4 of the MDs, any person/entity classified and reported as fraud by the REs shall be debarred from raising of funds/seeking additional credit facilities from financial entities regulated by the RBI for a period of five years from the date of full repayment of the defrauded amount/settlement amount agreed upon in case of a compromise settlement. This apart, being classified as fraudulent has several other implications. Such person if promoter of any company shall be prohibited from raising funds by way of public issue. Similarly, such entity will be prohibited from raising funds by way of public issue.

Furthermore, the revised MDs aim to strengthen the current FRM framework, ensuring timely detection and reporting, also by strengthening the EWS framework. As per RBI Annual Report 2023-24, the study on fraud analysis in case of banks, showed that there was a significant time-lag between the date of occurrence of fraud and its detection. Fraud of an amount of more than INR 2000 crores which occurred before 2013-14 was detected and reported in 2023-24, reflecting significant delays in fraud detection.

Frauds reported in 2023-24

Date of occurrence of fraud	Amount involved (in crores)
Before 2013-14	2133
2013-14	1327
2014-15	1616
2015-16	951
2016-17	858
2017-18	781
2018-19	1196
2019-20	835
2020-21	807
2021-22	844
2022-23	1073
2023-24	1509

{Source: RBI Annual Report 2023-24}

It is also important to note that the earlier MDs which have now been repealed, were not made applicable to RRBs, StCBs and CCBs. In other words, the FRM framework is now applicable to RRBs, StCBs and CCBs as well.

Summary of key changes

Formation of FRM policy:

The MDs require the REs to frame a board approved FRM policy which shall cover the process of classifying, reporting accounts as fraudulent, defining the roles & responsibilities of the board, senior management, process for issuance of SCN and its examination, defining EWS framework within the RE.

In case of banks, while, Commercial Banks are already mandated to have a board approved FRM policy (as per the earlier MD), UCBs, RRBs, StCBs and CCBs will have to frame the FRM policy. Further, all NBFCs and HFCs will also be required to have a board approved FRM policy.

Special Committee of the Board for Monitoring and Follow-up of cases of frauds (SCBMF):

The MDs require the REs to formulate a board delegated committee with the nomenclature, Special Committee of the Board for Monitoring and Follow-up of cases of frauds (SCBMF). The SCBMF shall not review each fraud case per se, but it shall be tasked with the overall monitoring of the FRM framework and reviewing the types of fraud cases that are faced by the RE including the root cause analysis of such cases and suggesting measures to strengthen internal control and minimising such fraud instances.

As regards the constitution of the SCBMF, it shall consist of minimum 3 directors, 1 whole-time director and 2 independent directors or non-executive directors (in case the RE is not mandated to have independent directors). The SCBMF shall be headed by one of the ID.

In the case of banks, the Commercial banks and Urban Cooperative Banks are already mandated to have a SCBMF as per the earlier MD.

In the case of NBFCs, NBFC-ML and NBFC-BL shall have the option of constituting Committee of Executives (CoE) with minimum 3 members, one being a WTD.

In the case of HFCs, HFCs are classified in the Middle Layer (unless RBI has classified them as NBFC-UL) as per the SBR Directions, irrespective of the asset size. Therefore, HFCs in the middle layer may constitute a CoE. However, HFCs classified in the upper layer by the RBI, shall mandatorily formulate SCBMF with the said constitution.

Framework for Early Warning Signals (EWS) and red flagging of accounts

EWS are crucial in the financial ecosystem for identifying potential risks of fraud and adopting measures to mitigate the same. The framework for EWS and red flagging of accounts is already applicable on Commercial Banks as per the 2016 MD which is now replaced by the revised MDs.

The NHB also issued a circular dated April 26, 2023 , mandating EWS framework for HFCs with asset size of Rs. 1000 cr or above.

The revised MDs have brought the following changes with respect to EWS framework:

- Extends the requirement of EWS framework to UCBs, RRBs, STCBs and CCBs;
- Extends the requirement of EWS framework to upper layer and middle layer NBFCs; which means all HFCs, irrespective of the asset size;
- The requirement of adopting EWS framework is for both credit and non-credit related transactions;
- There is no threshold for EWS as was previously in the case of Commercial Banks . That is, all credit and non-credit accounts should be monitored from EWS perspective by the REs.

EWS are the indicators that are reflective of potential fraud in accounts. Trigger of one or more such indicator should result in the account being classified as red flagged account. The sole purpose of classifying an account as red flagged account is that such account should invite more attention as it shows early signs of being fraudulent.

The illustrative list of EWS has been provided in the 2016 MD applicable on Commercial Banks and also in the NHB Circular for the HFCs.

Deploying data analytics and market intelligence

The REs are required to have a data analytics and market intelligence unit which shall facilitate collection and processing of information for early detection of fraud. This unit shall use AI to gather market information on fraudsters, types of frauds being committed, etc. to help monitoring the early signs of fraud in the accounts.

Issuance of SCN

The REs are required to issue a SCN to borrowers, asking them as to why their account should not be classified as fraudulent. A time period of 21 days has to be provided to the borrowers to reply to the SCN. The REs are further required to carry out examination of the response to the SCN, initiate investigation and provide a reasoned order to the borrower conveying the decision of the RE.

This is a new requirement for all the REs, emanating from the judgement of the Hon'ble Supreme Court (as quoted above).

Roles and responsibilities

Instance of frauds in an RE, amongst other things, reflects the need to strengthen internal controls for prevention and early detection of such instances. Having said that, the role of board of directors, audit committee, risk management committee and the senior management is of utmost importance.

Audit Committee

Previous framework

Overseeing each instance of fraud

Current framework

Shifted the responsibility of fraud monitoring to SCBMF

Risk Management Committee

Previous framework

Not defined

Current framework

Overseeing the framework for EWS and RFA

Senior Management

Previous framework

Not defined

Current framework

- Implementation of the FRM policy;
- Implementation of a robust framework for EWS and red flagging of accounts;
- Review of frauds to be placed before the Board/ACB

Requirement of legal audit

The REs are required to carry out periodic legal audit of the title deeds of the borrowers, where the outstanding credit facility at that point of time is; (i) Rs. 5 cr and above, in case of Commercial Banks, (ii) Rs. 1 cr and above, in case of RRBs, UCBs, StCBs, CCBs; and (iii) Rs. 1 cr and above, in case of NBFCs and HFCs.

Please note that the requirement of legal audit was already there in the case of Commercial Banks.

Legal audit is required at two points in time:

- At the inception of a credit relationship: If the credit facility extended by the RE is more than or equal to Rs. 5 cr or Rs. 1 cr; as the case may be, the RE needs to ensure that legal audit is carried out to check the title deeds, verify the authenticity of the documents. This also involves physical verification of the property.
- During the credit relationship: If the outstanding credit facility extended by the RE, at any time is more than or equal to Rs. Rs. 5 cr or Rs. 1 cr; as the case may be, the RE needs to ensure that legal audit is carried out to check whether the borrower has created another encumbrance on the property and to see whether the collateral is still valid.

It is to be noted that the legal audit does not entail valuation of the property but a clear title on the property

Reporting requirements:

The change in reporting requirements have been briefed as under:

Particulars	Previous provision	Amended provision	Comments
Reporting to Law Enforcement Agencies	**PVBs/FBs:** • Rs. 10,000 & above (by staff) – State Police • Rs. 10 lac & above (outsider) – State Police • Rs. 1 cr & above – State Police + SFIO	**PVBs/FBs:** • Below Rs. 1 cr – State Police • Rs. 1 cr & above – State Police + SFIO	Any amount below Rs. 1 cr needs to be reported to State Police
	PSBs • Rs. 10,000 & above (by staff) – State Police • Rs. 10 lac & above but below Rs. 3 cr – EOW of concerned State • Rs. 3 cr & above – CBI	**PSBs:** • Below Rs. 6 cr – State Police • Rs. 6 cr & above – CBI	• Any amount below Rs. 6 cr needs to be reported to State Police • Threshold for reporting fraud to CBI increased to Rs. 6 cr
Reporting to RBI/NHB/NABARD (StCBs and CCBs have to do fraud reporting with NABARD as well)	**REs:** FMR-1 to be filed within 3 weeks from the date of detection	**REs:** FMR-1 to be filed immediately but not later than 14 days from the date of classification of fraud	Date of classification is defined under the MDs to be the date when due approval from the competent authority is obtained for such classification

Impact assessment

The revised MDs mandate the REs to issue a SCN to the concerned borrower, giving him an opportunity of being heard, before classifying and reporting his account as fraudulent. The revised MDs also aim to:

- Introduce uniform FRM framework across all REs;
- Strengthen the role of board of directors, senior management in overall governance and oversight of FRM;
- Monitor fraud effectively by shifting the responsibility from the audit committee to a dedicated board level committee;
- Strengthen the framework of early detection of fraud by mandating adoption of EWS;
- Strengthen the internal controls and process of fraud investigation.

Below are the actionable for the banks.

Amending the FRM policy:

Commercial banks will have to amend their FRM Policy in line with the revised MDs. Further, UCBs, RRBs, StCBs, CCBs will have to frame a board approved FRM Policy

The FRM policy shall inter-alia cover the following aspects:

- Defining roles & responsibilities of the board, audit committee, risk management committee, SCBMF, senior management and other staff of the RE;
- Internal system for issuance and examination of SCN;
- Framework for EWS;
- Scope of internal/external audit for investigation of frauds;
- Scope and periodicity of legal audit of the title deeds;
- Periodicity of fraud review by the SCBMF;
- Reporting of fraud to RBI/NHB/local police authorities.

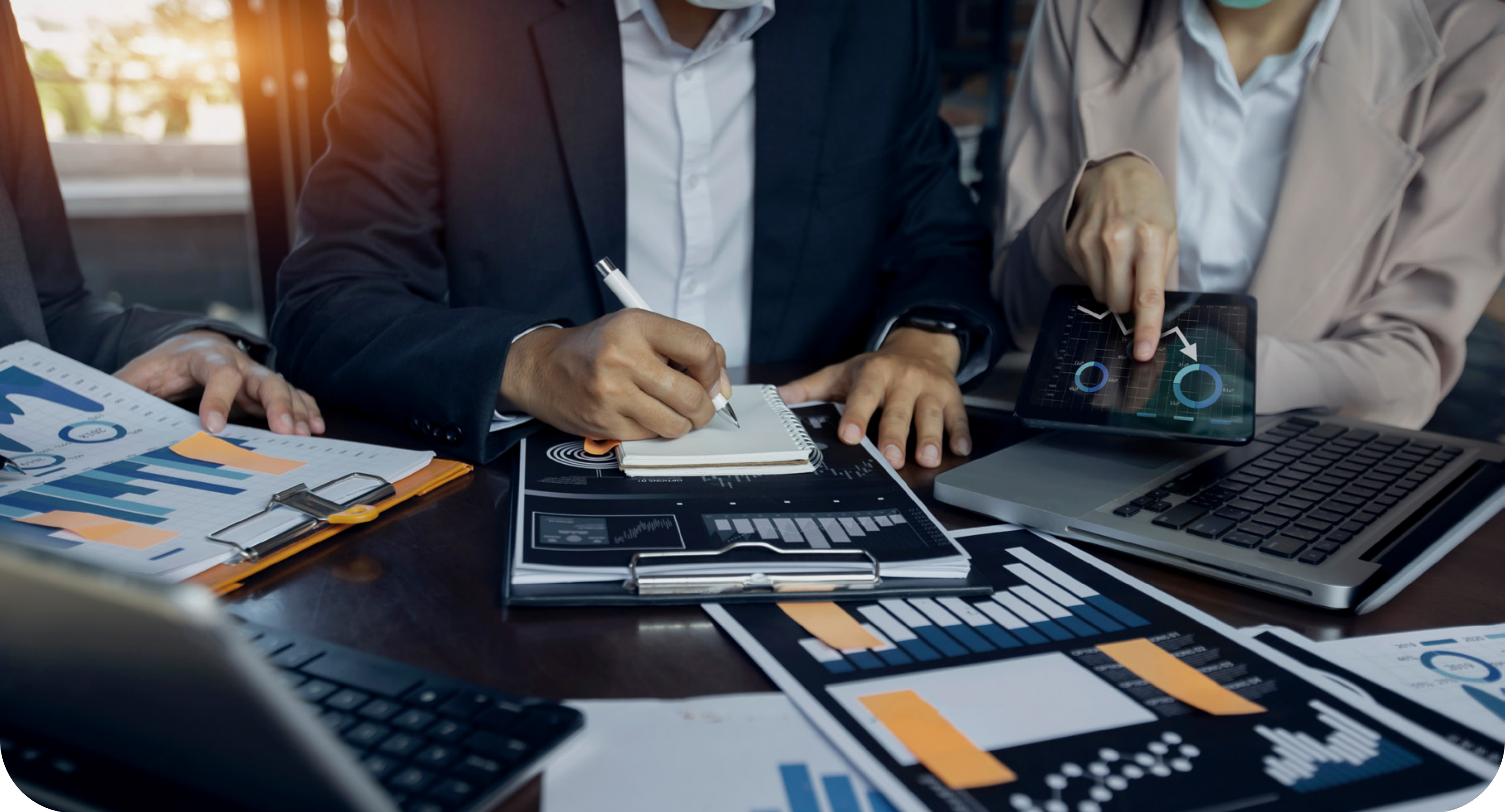
Establishing internal system for issuance and examination of SCN:

The principle of natural justice has to be embedded in the FRM framework. The banks will have to implement an internal system for issuing the SCN to borrowers and for further examination and issuing of final order.

Constitution of Special Committee of the Board for Monitoring and Follow-up of cases of frauds and its ToR:

Commercial Banks and UCBs will have to amend the constitution of the SCBMF. Since, previously banks' audit committee was responsible for monitoring of all frauds and SCBMF was responsible for monitoring frauds beyond a certain threshold, now the onus of monitoring has now shifted to SCBMF. Therefore, the ToR of the SCBMF needs to be amended.

The RRBs, StCBs and CCBs will have to constitute SCBMF and lay down its ToR.



ToR of the Risk Management Committee:

The banks will have to amend the ToR of the RMC to include oversight of EWS framework.

Senior Management roles & responsibilities:

The banks will have to amend the roles & responsibilities of the senior management to include the following:

- Implementation of the FRM policy;
- Implementation of a robust framework for EWS and red flagging of accounts;
- Review of frauds to be placed before the Board/ACB

EWS framework:

Commercial Banks will have to revisit their EWS framework to include EWS in non-credit transactions as well viz. deposits. The EWS framework will have to be adopted irrespective of the value of the credit or non-credit transaction.

The steps for adopting an EWS framework can be as under :

- Framing list of EWS parameters from the illustrative list given by RBI in case of Commercial Banks;
- Identifying the parameters basis the size of entity, complexity of transaction, client profile;
- Taking references from its past experiences or experiences of other REs;
- Integrating the EWS framework with the CFSS/other loan management systems to ensure continuous credit monitoring mechanism;
- System for red flagging accounts on triggering of one or more EWS parameters;
- Detailed study of borrower including detailed study of the annual report, noting details of related party transactions;
- Sensitising the officers of respective accounts to observe the account and report any suspicion;
- Ensure robust appraisal and effective credit monitoring mechanism during the life cycle of the account;
- Periodic oversight over the EWS framework by the RMC.

Engagement of external auditors:

Once an account has been red flagged, banks will have to carry out investigations by way of internal/external audit. Thus, banks will have to frame a policy on engagement of external auditors covering aspects such as due diligence, competency, and track record. The policy shall provide for the scope, timeline of completion. This can be a separate policy or a section in the FRM policy.

Engaging legal auditor:

The banks will have to engage legal auditor for carrying out legal audit of title deeds, at the time of inception and at any point in time till the account remains outstanding. Commercial Banks are already required to ensure legal audit where the amount of credit facility is Rs. 5 cr and above. RRBs, UCBs, StCBs and CCBs are now required to ensure legal audit where amount of credit facility is Rs. 1cr and above.

The revised MDs aim to bring uniformity in the FRM space within the financial system. While previous MDs applicable on banks defined the governance structure, NBFCs and HFCs must now establish a governance mechanism for FRM. The need for EWS framework for NBFCs and strengthening of EWS for other REs shall help early detection of frauds and a standardised practice among the REs. Reporting requirements have also been increased with the removal of threshold in case of NBFCs. As regards the borrowers, the need for providing opportunity of being heard by the lenders is a positive change.

Master Direction on treatment of wilful defaulters and large defaulters

RBI/Dor/2024-25/122 DoR.FIN.REC.No. 31/20.16.003/2024-25

Release date: 30th July 2024

Applicability

The provisions of these Directions shall apply to all Commercial Banks including Small Finance Banks, Local Area banks and Regional Rural Banks and Excluding Payment banks. All Primary (Urban) Co-operative Banks/ State Co-operative Banks/ Central Co-operative Banks. All Indian Financial Institutions (Exim Bank, NABARD, NHB, SIDBI, and NaBFID). All Non-Banking Financial Companies including Housing Finance Companies. All Asset reconstruction companies and Credit Information companies.

Background and objective

The Reserve Bank of India (RBI) issued the Master Direction on the Treatment of Wilful Defaulters and Large Defaulters to address the growing concern of deliberate non-payment of dues despite the ability to do so. This circular is part of the RBI's ongoing efforts to enhance the credit discipline and mitigate the risks posed by non-performing assets (NPAs) to the banking system. It provides a clear definition of what constitutes a 'wilful defaulter' and lays down the procedures for banks and financial institutions to identify and deal with such entities.

The objective of this directive is twofold: to safeguard the interests of the lending institutions and to ensure the stability of the financial system. By classifying wilful defaulters and disseminating this information, the RBI aims to prevent these entities from accessing the financial system and to promote a responsible credit culture. This is crucial for the health of the banking sector, as it helps in the recovery of dues and deters borrowers from defaulting on their obligations. The circular also serves as a warning to all stakeholders about the serious repercussions of being categorised as a wilful defaulter.

Summary of key changes

The Reserve Bank of India has issued guidelines for lenders to follow specific processes and mechanisms in cases of wilful default.

A summary of these guidelines is provided below:

Mechanism for identification and classification of wilful defaulters

The determination of wilful default incorporates a thorough review of the borrower's entire financial behavior, not just single transactions or incidents. A default is categorised as wilful if it involves a deliberate and intentional failure to meet financial obligations.

The Identification Committee diligently examines the evidence of wilful default. Should such a default be established, the committee issues a show-cause notice to the relevant individuals, whether they are borrowers, guarantors, promoters, directors, or anyone in charge of managing the entity. These individuals must then provide their defense within 21 days of receiving the notice.

It is the responsibility of Regulated Entities to establish guidelines, based on policies approved by their board, that specify the position of the official who is empowered to issue the show-cause notice and enforce the decisions of both the Identification and Review Committees. This protocol ensures a methodical and authoritative process for addressing wilful defaults.

Review of accounts for identification of wilful default

Regulated Entities are required to meticulously scrutinise the aspect of 'wilful default' in every Non-Performing Asset (NPA) account that carries an outstanding balance exceeding ₹25 lakhs, or in accordance with the thresholds periodically stipulated by the Reserve Bank of India. In instances where preliminary internal assessments reveal indications of wilful default, lenders are obligated to finalise the borrower's classification or declaration as a wilful defaulter. This process must be concluded within a six-month window following the account's designation as an NPA.

Regulated entities are prohibited from extending further credit facilities to wilful defaulters or their affiliated entities. This prohibition remains in effect for a duration of one year subsequent to the erasure of the wilful defaulter's name from the List of Wilful Defaulters (LWD). Moreover, these entities are barred from receiving credit for new business endeavors for a period of five years following their removal from the LWD. Additionally, wilful defaulters and their related entities are disqualified from any credit restructuring schemes.

It is incumbent upon the regulated entity to promptly pursue legal measures against borrowers or guarantors to secure the foreclosure or expedite the recovery of outstanding dues.

Specific measures against wilful defaulters

Regulated entities are entrusted with the responsibility of judiciously evaluating each case on its individual merits to determine the propriety of commencing criminal proceedings against wilful defaulters, in alignment with the applicable legal provisions. Furthermore, these entities are mandated to formulate an impartial policy, sanctioned by their governing board, which unambiguously specifies the parameters for the publication of photographs of those individuals who have been identified and proclaimed as wilful defaulters. This policy ensures a consistent and equitable approach in handling such sensitive matters.

Role of internal auditor

The Regulated Entities Audit Committee should periodically review cases of wilful default and recommend preventive measures. The review should focus on identifying the root causes of wilful defaults and addressing any deficiencies in the lender's classification process.

Reporting of defaulters

All entities regulated by the Reserve Bank, regardless of their classification as 'lenders,' must report and disseminate credit information on large defaulters to all credit information companies (CICs) monthly. CICs will display the list of suit-filed accounts of large defaulters on their websites.

The Regulated entities (RE) or Asset Reconstruction Companies (ARC) must inform all CICs of the removal of a wilful defaulter's name from the LWD within 30 days once the outstanding amount falls below INR 25 lacs or as notified by the RBI. CICs will display suit-filed and non-suit filed accounts of LWD on their websites. If an NBFC in the Middle layer or above, or a Non-Scheduled UCB in Tier 3 or 4, is reclassified to a lower tier, they can no longer classify borrowers as wilful defaulters but must continue updating historical data to CICs.

Treatment of sold defaulted loans

Before transferring a defaulted loan with an outstanding amount of INR 25 lacs and above, regardless of its NPA status, the RE must conduct a thorough internal investigation for wilful default. This process does not require a two-stage committee but must ensure a comprehensive examination of wilful default aspects for each loan.

The sale of a defaulted loan to other RE's or ARCs should not be considered as recovery when calculating the threshold for classifying a wilful defaulter and reporting to CICs, since the loan amount has not been fully recovered.

Impact Assessment

In essence, the regulation is designed to fortify the mechanisms for managing wilful defaults, enhance responsibility, and safeguard the robustness of the financial ecosystem. It also introduces supplementary responsibilities in terms of operations, legality, and regulatory adherence for financial institutions, necessitating adjustments to their existing protocols and strategies.

These regulations aim to deter wilful defaults and protect the financial system, but they also place a significant burden on customers, who must navigate these rules and their consequences carefully.

The Directions shall significantly impact various departments. Each department will need to develop specific strategies to comply with these regulations effectively while minimising any negative impacts on their operations. within a bank. Below are the actionables required for banks and an assessment on how different departments might be affected.

Enhanced Due Diligence:

The credit department will need to enhance its due diligence processes to identify potential wilful defaulters at an early stage. This involves conducting thorough background checks and continuously monitoring the financial health of borrowers. Regulated entities are required to perform an in-depth examination of a borrower's complete financial conduct, rather than focusing solely on individual occurrences, to ascertain wilful defaults. This necessitates that regulated entities improve their due diligence practices and keep detailed documentation of borrowers' financial activities. The financial past of customers will undergo more stringent examination.

Reporting obligations

The compliance department responsible for reporting obligations must ensure the accurate and timely submission of monthly reports on substantial defaulters to credit information companies. Regulated entities are obligated to submit monthly reports on substantial defaulters to credit information companies, which heightens the responsibility for precise and prompt data handling. The credit details of customers, particularly concerning significant defaults, will be disclosed to these companies, influencing their credit scores and prospective financial reliability.

Legal recourse

The Legal Department within Regulatory Entities (REs) is responsible for promptly initiating legal actions to recover debts from borrowers or guarantors._Regulatory Entities (REs) are required to promptly undertake legal measures to reclaim debts from borrowers or guarantors, potentially intensifying the legal team's workload. In instances of deliberate default, REs are poised to act quickly to legally pursue recovery from the involved customers.

Loan transfer scrutiny

The responsibility of the credit department within Regulatory Entities (REs) concerning loan transfers is to conduct thorough investigations into unpaid loans to determine if the default was intentional. Before passing on a loan that hasn't been paid, Regulatory Entities (REs) have to carry out their own checks to see if the default was done on purpose. This additional investigation step makes the process of changing the loan's ownership more thorough. When RE's do these internal checks, it might take longer or make things more complex for the customers involved in the loan transfer.

Actionable for other departments are as below

Credit Department

The regulation mandates the credit department to implement stringent due diligence processes to identify potential wilful defaulters early. It requires the department to maintain comprehensive records of borrower behavior and repayment history, ensuring accurate and timely reporting to Credit Information Companies (CICs). The credit department must also collaborate closely with other departments, such as legal and compliance, to ensure that all actions taken against defaulters are legally sound and in line with regulatory requirements. Additionally, the department is responsible for initiating corrective measures and monitoring the effectiveness of these actions to mitigate the risk of future default.

Risk Management Department

The risk management department will need to improve its risk assessment framework to more effectively identify and mitigate risks associated with large borrowers. This includes implementing preventive measures to avoid wilful defaults, such as establishing early warning systems and conducting stress tests. Additionally, the department can develop and implement strategies to mitigate the impact of potential defaults, including diversifying the loan portfolio and setting aside higher provisions.

Operations & Recovery Department

The Operations Department should establish clear criteria and automated systems to identify wilful defaulters, ensuring accurate data collection through robust tracking systems. They can integrate these systems with existing banking software for seamless data flow and maintain a centralised database. Regular updates and data validation checks are essential. Additionally, they should implement comprehensive recovery strategies, focusing on legal actions and settlements, and collaborate closely with the Legal Department to follow through on legal proceedings.

Internal Audit Department

The internal audit department will perform regular audits to ensure all departments adhere to the new regulations. This involves verifying compliance with due diligence processes and loan approval criteria. Additionally, the department will identify areas for improvement in existing processes to enhance compliance and reduce the risk of defaults. Detailed reports on the bank's compliance status and any identified risks or issues will be provided to senior management.

Finance and Accounts Department

The finance and accounts department will need to modify financial reporting to reflect changes in provisioning norms for wilful defaults, ensuring the accurate reporting of the financial impact of increased provisions. The new regulations may result in higher provisions for potential defaults, affecting the bank's profitability and financial statements. Additionally, budgeting and forecasting processes will need to be adjusted to account for the potential financial impact of the new regulations, including allocating funds for increased provisions and legal costs.

Prudential Treatment of Bad & Doubtful Debt Reserve by Co-operative Banks

RBI/2024-25/58 DOR.CAP.REC.No.27/09.18.201/2024-25

Release date: 02nd August 2024

Applicability

This circular is applicable to all Primary (Urban) Co-operative Banks, State Co-operative Banks and Central Co-operative Banks. The instructions are applicable with immediate effect.

Background and objective

The Prudential Treatment of Bad and Doubtful Debt Reserve (BDDR) by Co-operative banks is a regulatory framework established by the Reserve Bank of India (RBI) to ensure uniformity and compliance with accounting standards.

Historically, co-operative banks in India have created BDDR under the provisions of respective State Co-operative Societies Acts or on prudential considerations. However, the methods varied: some banks recognised BDDR as an expense in the Profit and Loss (P&L) Account, while others appropriated it from their net profits. This inconsistency led to discrepancies in financial reporting and regulatory capital calculations.

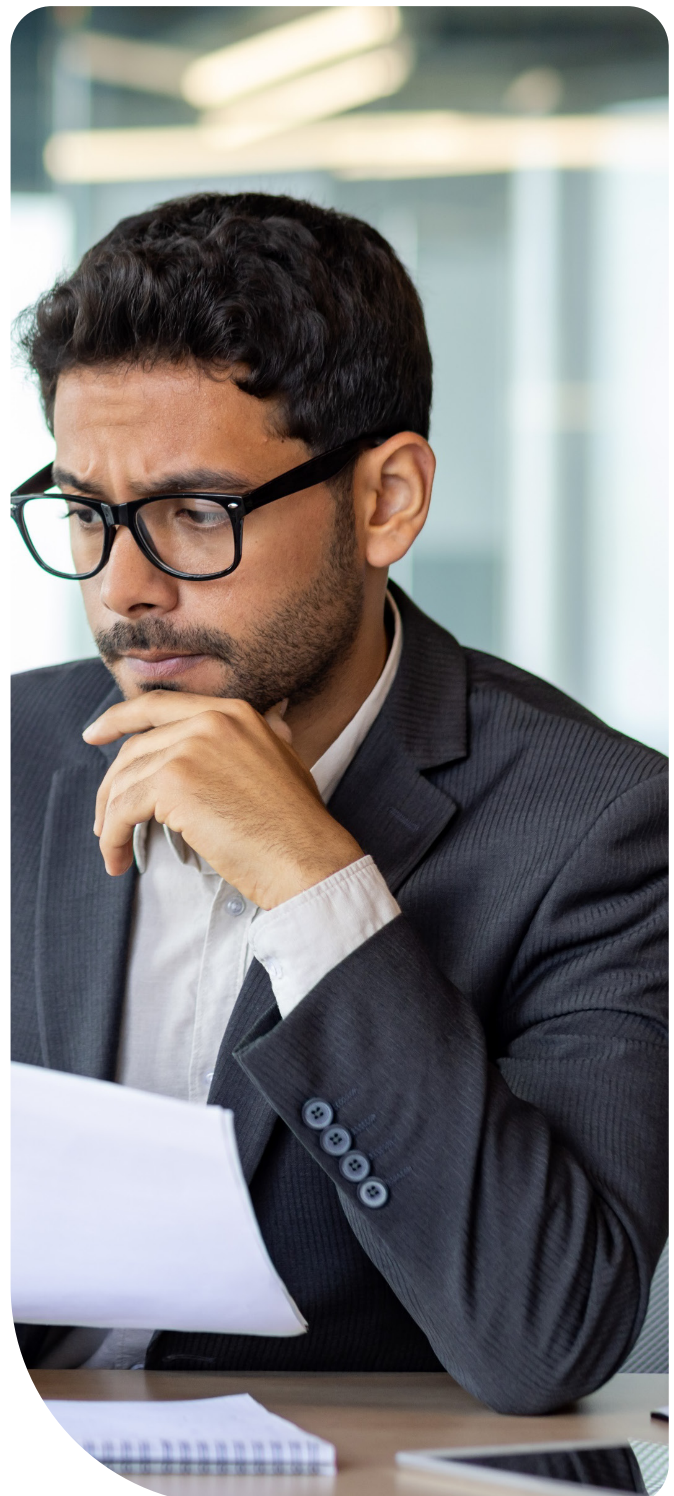
Accounting Standard 5 (AS 5) on Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies states that all expenses which are recognised in a period should be included in the determination of net profit or loss for the period. Since some banks did not recognise required provisions for Non-Performing Assets (NPAs) as an expense while arriving at the net profit in the P&L Account, this was not in consonance with the extant Accounting Standards.

The objective of the revised framework is to standardise the treatment of BDDR, ensuring that provisions for Non-Performing Assets (NPAs) are recognised as an expense in the P&L Account, thereby enhancing transparency and financial stability.

Summary of key changes

The Reserve Bank of India (RBI) has recognised the need for a standardised approach to the treatment of BDDR across all co-operative banks. This move is aimed at ensuring that all banks follow a uniform set of rules and practices when it comes to accounting for and managing bad and doubtful debts.

The primary goal is to align the treatment of BDDR with established Accounting Standard (AS) 5. This alignment ensures that all provisions for Non-Performing Assets (NPAs) are recognised as expenses in the Profit and Loss (P&L) account, promoting transparency and consistency in financial reporting.



Recognition of Provisions

Under the new guidelines, all provisions required by the Income Recognition, Asset Classification, and Provisioning (IRACP) norms must be charged as expenses to the P&L account during the accounting period in which they are recognised. This change ensures that provisions are not hidden or deferred but are immediately reflected in the financial statements.

Appropriations from Net Profits

After accounting for all necessary provisions in the P&L account, banks may still make appropriations from net profits to the BDDR if required by applicable laws or internal policies. However, these appropriations will occur below the line, meaning they will not affect the reported net profit before these appropriations.

One-Time Transition Measure

To facilitate a smooth transition to the new guidelines, banks are required to identify and quantify the balances in their BDDR as of March 31, 2024. These balances represent provisions that were previously created by appropriating from net profits rather than recognising them as expenses. By March 31, 2025, banks must reclassify these amounts, either by charging them directly to the P&L account or by transferring them from General Reserves to provisions for NPAs. These provisions can be netted off from Gross NPAs to determine Net NPAs. Any excess BDDR not required by statute can be transferred to General Reserves or to the Balance in the P&L Account.

Regulatory Capital

The revised guidelines clarify that the eligibility of provisions for regulatory capital purposes will continue to be governed by existing capital adequacy norms which is to say that the balances in the BDDR can be considered as Tier 1 capital. However, they should not be deducted from Gross NPAs to determine Net NPAs. This ensures that the new accounting treatment does not adversely impact the capital adequacy ratios of the banks.

Impact assessment

By implementing these revised instructions, the RBI aims to enhance the prudential management of bad and doubtful debts, ensuring that co-operative banks maintain robust financial health and regulatory compliance. This uniform approach will also improve the comparability and reliability of financial statements across the sector.

Uniformity and Compliance

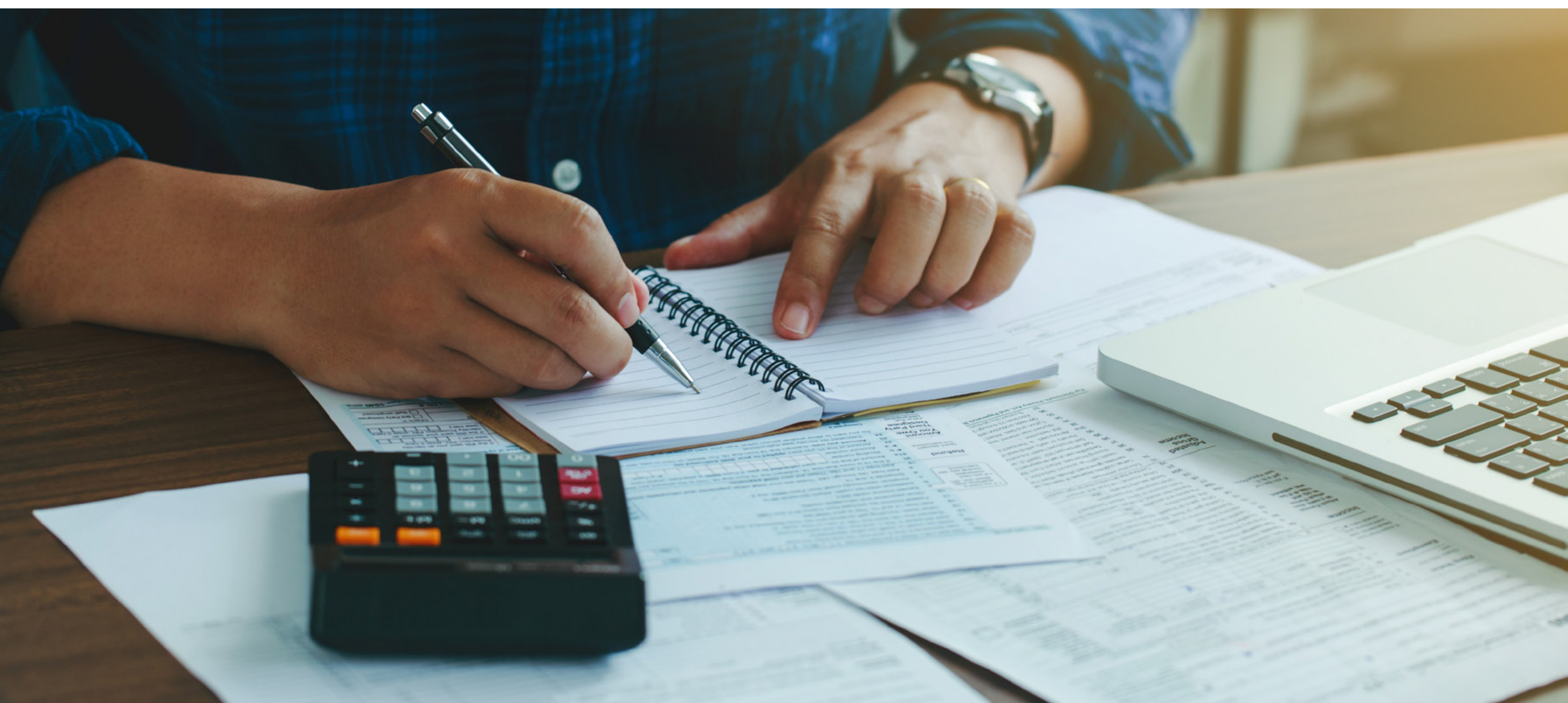
Banks will need to adjust their accounting practices to comply with the new guidelines. This may involve changes in their financial reporting systems and processes to ensure that all provisions are recognised as expenses in the P&L account.

Financial Reporting

The transition to the new guidelines may have an impact on banks as they adjust their accounting practices. However, in the long term, the standardised treatment of BDDR is expected to improve the accuracy and reliability of financial statements.

Capital Adequacy Ratios

The treatment of bad and doubtful debt reserve for regulatory capital purposes will be standardised, potentially impacting the capital adequacy ratios of banks.



02

Other notifications in July & August 2024

Other notifications July 2024

Release of foreign exchange for Miscellaneous Remittances

(Release date – 03 July 2024)

RBI has issued directions related to release of foreign exchange for Miscellaneous Remittances. These directions have been issued under sections 10(4) and 11(1) of the Foreign Exchange Management Act, 1999 (42 of 1999).

With an effort to simplify compliance and operational processes, the regulator has revised the guidelines for authorised dealers in the case of foreign exchange transactions. Previously, authorised dealers were allowed to facilitate foreign exchange for current account transactions based on the presentation of a request letter from the remitter only up to a limit of USD 25,000 or its equivalent. Furthermore, it was stipulated that no additional documentation, including Form A2, was required, provided that payments were made via Demand Draft or a cheque from the applicant's bank account. However, with a move to enhance regulatory adherence, authorised dealers are now mandated to procure Form A2, whether in physical or digital format, for all cross-border remittances without any limit on the transaction amount.

With release of these directions, the following circulars stand withdrawn with immediate effect.

- A.P.(DIR Series) Circular No.16 dated September 12, 2002
- A.P.(DIR Series) Circular No. 55 dated December 23, 2003
- RBI/2011-12/537 A. P. (DIR Series) Circular No.118 dated May 07, 2012

Export-Import Bank of India's GOI-supported Line of Credit of USD 2.50 mn to the Government of Co-operative Republic of Guyana, for installation of Solar Photo Voltaic Power Plant at Cheddi Jagan

(Release date – 08 July 2024)

The Export-Import Bank of India (Exim Bank) has signed an agreement with the Government of Guyana for a Line of Credit (LoC) of USD 2.50 million to install a Solar Photo Voltaic Power Plant at Cheddi Jagan International Airport. The export of eligible goods and services from India, as defined under the agreement, would be allowed subject to their eligibility under the Foreign Trade Policy of the Government of India. As regards the export, at least 75% of the goods, works, and services under the contract shall be sourced from India, with the remaining 25% allowed from outside India.

The agreement is effective from June 24, 2024, with a disbursement deadline 48 months after the project's scheduled completion date. As regards compliance, shipments under the LoC must be declared as per RBI instructions, and no agency commission is payable for exports under this LoC.

Basel III Capital Regulations - Eligible Credit Rating Agencies (ECAI)

(Release date – 10 July 2024)

RBI Master Circular – Basel III Capital Regulations dated April 1, 2024, which is applicable on SCBs, provides a list of credit rating agencies (CRAs) that are accredited for the purpose of risk weighting banks' claims for capital adequacy purposes. The list included Brickwork Ratings India Private Limited as one of the accredited CRA. However, in October, 2022, SEBI cancelled the CoR granted to Brickwork, subsequent to which RBI advised banks to not avail fresh ratings/evaluations from Brickwork.

Nearly 2 years after, RBI has allowed the banks to avail ratings of Brickwork for risk weighing their claims for capital adequacy purposes. However, the same shall be subject to the following conditions:

In respect of fresh rating - rating may be obtained from Brickwork for bank loans not exceeding Rs.250 crore;

In respect of existing ratings - Brickwork may continue monitoring the existing ratings, irrespective of the rated amount, till the residual tenure of such loans;

In respect of existing ratings assigned to working capital facilities exceeding Rs.250 crore – Brickwork shall monitor existing rating only till the next renewal of such facility by the banks.

Remittances to International Financial Services Centres (IFSCs) under the Liberalised Remittance Scheme (LRS)

(Release date – 10 July 2024)

RBI has amended the Master Direction on Liberalised Remittance Scheme dated January 1, 2016, to allow remittances by resident individuals to IFSCs, for (i) availing financial services or financial products as per the International Financial Services Centers Authority Act, 2019 within IFSCs; and (ii) for all current and capital account transactions in any other foreign jurisdiction. The resident individuals can open Foreign Currency Account (FCA) in the IFSC for these purposes. This is a positive and significant move as this will bolster banking ecosystem in the IFSC.

As far as the resident individuals are concerned, they will be largely benefitted as now they can remit amount to foreign countries through their FCA account in IFSC for current and capital account transactions as per FEMA Act, 1999 viz. buying immoveable property, gifts/donations, tourism, education abroad, investment in stocks, etc. They can open FD account in foreign currency and further participate in financial services/products provided by the IFSCs.

Even though IFSC is considered as a different jurisdiction, amount kept in FCA will remain in the Indian financial system, enabling resident individuals to protect themselves from currency fluctuations. This will also provide them with the comfort of an Indian bank.

Prior to this amendment, FCA account in IFSC was allowed only for making investment in securities of companies in the IFSC and towards educational fee to foreign institutions in the IFSCs.

Withdrawal of circulars -- Internal review

(Release date – 12 July 2024)

The Reserve Bank of India (RBI) has conducted an internal review to remove outdated instructions and streamline existing guidelines. As a result, the circulars listed in the Annex will be withdrawn effective from the close of business on July 12, 2024. Refer link: https://website.rbi.org.in/documents/87730/39710850/Withdrawal+of+Circulars_SPARC.pdf

Domestic money transfer – Review of framework

(Release date – 24 July 2024)

The RBI has introduced changes to the Domestic Money Transfer- Relaxations circular dated October 5, 2011 owing to a notable rise in the number of banking outlets, advancements in payment systems for transferring funds, simplification of KYC requirements, and users now having various digital options for transferring funds.

For Cash Pay-out Services, the remitting bank shall have to collect and maintain a record of the beneficiary's name and address. For Cash Pay-in Services, remitting banks or Business Correspondents (BCs) shall have to register the remitter using a verified cell phone number and a self-certified Officially Valid Document (OVD) as per the Master Direction – Know Your Customer Direction 2016. Each transaction by a remitter shall be validated through an Additional Factor of Authentication (AFA). Remitting banks and their BCs shall have to comply with the provisions of the Income Tax Act, 1961, concerning cash deposits. The remitter bank must include remitter details in the IMPS/NEFT transaction message, which must also contain an identifier to mark the fund transfer as a cash-based remittance.

Card-to-card transfer guidelines are now excluded from the purview of the DMT framework while all other instructions as stated in DMT framework dated October 5, 2011 including the limits in size of transactions shall continue to be applicable as it is. RBI has notified that the circular will come into effect from November 01, 2024.

With the revised framework, the regulator is trying to enforce stricter KYC record keeping requirement. This move shall make it tougher for transfer of money in banking channel by account holders.

Master Direction - Overseas Investment – RBI

(Release date – 24 July 2024)

Overseas Investment (OI) Rules and Regulations were notified in August, 2022 replacing FEMA (Transfer or Issue of Foreign Security) Regulations, 2004 and FEMA (Acquisition and Transfer of immovable property outside India) Regulations, 2015. RBI had also issued FEMA (Overseas Investment) Directions, 2022 for operational instructions to the AD Banks for implementation of OI Rules and OI Regulations.

RBI has now issued Master Direction – Overseas Investment, compiling the circular on FEMA (Overseas Investment) Directions, 2022 and subsequent amendment circular issued on June 7, 2024. This Master Direction is a compilation of existing circulars on the subject, thus there is no change from the previous framework.

Small value loans – Primary (Urban) co-operative banks (UCBs)

(Release date – 25 July 2024)

The Reserve Bank of India (RBI) has extended the deadline for Urban Co-operative Banks (UCBs) to meet the requirement of having at least 50% of their aggregate loans as Small Value Loans. Originally set for March 31, 2024, the new deadlines are March 31, 2025, for achieving 40%, and March 31, 2026, for achieving 50%. All other prudential limits from the original circular remain unchanged.

Bank finance against shares and debentures

(Release date – 25 July 2024)

RBI has amended the Master Circular - Exposure Norms and Statutory/Other Restrictions – UCBs dated January 16, 2024 and Circular on Bank Finance against shares and debentures dated October 22, 2001 to modify the ceiling limit upto which the Primary UCBs can lend against shares and debentures. As on date, Primary UCBs are allowed to lend against collateral of shares and debentures upto the overall ceiling of 20% of their owned funds. With the amended Circulars coming into force, Primary UCBs can lend against shares and debentures within overall ceiling of 20% of the Tier 1 capital of the bank as on March 31 of the previous financial year.

The amendment aims to link the overall ceiling with the Tier 1 capital of the bank, which is considered as more stable measure of bank's health as it represents the equity capital, retained earnings of the bank. The amendment shall come into force from January 1, 2025, all other provisions of the Circulars remain unchanged. The Primary UCBs have time till December 2024, to align their lending activity in compliance with the amendment.

Reserve Bank of India issues Prompt Corrective Action (PCA) Framework for Primary (Urban) co-operative banks

(Release date – 26 July 2024)

The RBI issued a Prompt Corrective Action (PCA) Framework for Primary (Urban) co-operative banks (UCBs) effective from 1 April 2025. This PCA framework replaces the Supervisory Action Framework (SAF) last updated by the regulator on 6 January 2020. The PCA framework has been effectively aligned with similar frameworks for scheduled commercial banks and non-banking financial companies.

It is predominantly principle-based, featuring fewer parameters than the SAF, yet maintaining stringent supervisory standards. This framework offers the flexibility to develop entity-specific supervisory action plans based on individual risk assessments. Additionally, it empowers Supervisors to determine capital expenditure limits tailored to each entity's risk profile.

The PCA Framework is applicable to all Tier 2, Tier 3 and Tier 4 UCBs, except UCBs under All Inclusive Directions (AID). However, Tier 1 UCBs have been excluded from the PCA framework at present.

The revised framework aims to concentrate more on larger UCBs, necessitating more intensive monitoring through the optimal use of supervisory resources.

'Fully Accessible Route' for Investment by non-residents in Government Securities – Exclusion of new issuances in 14-year and 30-year tenor securities

(Release date – 29 July 2024)

The Reserve Bank of India (RBI) has decided to exclude new issuances of 14-year and 30-year government securities from the Fully Accessible Route (FAR) for non-resident investors. This decision, made in consultation with the government, means future issuances of these securities will not be available for investment under FAR. However, existing stocks of these securities will still be accessible to non-residents in the secondary market. Investments by Foreign Portfolio Investors in new 14-year and 30-year securities will be subject to existing investment limits and conditions. These changes are effective immediately.

Master Directions on Cyber Resilience and Digital Payment Security Controls for non-bank payment system operators

(Release date – 30 July 2024)

The "Master Directions on Cyber Resilience and Digital Payment Security Controls for non-bank Payment System Operators" is a comprehensive set of guidelines issued by the Reserve Bank of India to enhance the security posture of non-bank payment system operators (PSOs) against cyber threats. The circular mandates a structured compliance framework with varying deadlines for PSOs based on their size, with the largest entities required to comply by April 1, 2025. It emphasises the importance of immediate incident reporting, robust data protection policies, real-time fraud monitoring, and a Board-approved Information Security policy. Additionally, it outlines governance mechanisms for risk management and mandates annual reviews and a Cyber Crisis Management Plan. This initiative reflects the RBI's commitment to safeguarding the digital payment ecosystem by ensuring that non-bank PSOs implement stringent security measures and maintain high standards of cyber resilience.

Guidelines on treatment of Dividend Equalisation Fund (DEF) - Primary (Urban) co-operative banks (UCBs)

(Release date – 30 July 2024)

The RBI has revised the Master Circular on Capital Adequacy for Primary (Urban) Co-operative Banks (UCBs) as of 1 April 2024. This revision elaborates how the Dividend Equalisation Fund (DEF) should be treated in terms of regulatory capital. The DEF was established by UCBs by setting aside funds to support dividend payments during years of insufficient profits or losses. The amendment, as a singular measure, allows UCBs to move the DEF balances to general or free reserves. These transferred amounts will be recognised as Tier-I capital. However, UCBs are required to disclose this transfer in the "Notes to Accounts" section of their balance sheets. Furthermore, UCBs are permitted a one-time transfer of funds to the DEF for future dividend distribution purposes.

Other notifications August 2024

Prudential Treatment of Bad and Doubtful Debt Reserve by Co-operative Banks

(Release date – 02 August2024)

The Reserve Bank of India has issued revised instructions for the treatment of Bad and Doubtful Debt Reserve (BDDR) by co-operative banks to ensure uniformity and compliance with accounting standards. Effective from FY 2024-25, all provisions for Non-Performing Assets (NPAs) must be charged as an expense to the Profit and Loss (P&L) account. Banks can make appropriations to BDDR from net profits after charging applicable provisions to the P&L account. As a one-time measure, banks must identify and adjust BDDR balances created from net profits by March 31, 2025. These balances can then be considered as Tier 1 capital but cannot be netted off from Gross NPAs to determine Net NPAs. The circular applies to all Primary (Urban) Co-operative Banks, State Co-operative Banks, and Central Co-operative Banks, effective immediately.

Modified Interest Subvention Scheme for Short Term Loans for Agriculture and Allied Activities availed through Kisan Credit Card (KCC) during the financial year 2024-25

(Release date – 06 August 2024)

The Government of India has extended the Modified Interest Subvention Scheme (MISS) for short-term loans for agriculture and allied activities through the Kisan Credit Card (KCC) for the financial year 2024-25. Under this scheme, farmers can avail loans up to ₹3 lakh at a concessional interest rate of 7%, with an additional 3% subvention for timely repayment, effectively reducing the interest rate to 4%. The scheme also includes provisions for loans against negotiable warehouse receipts and relief measures for farmers affected by natural calamities. Aadhar linkage remains mandatory for availing these loans, and banks are required to report data on the Kisan Rin Portal to settle claims.

Frequency of reporting of credit information by Credit Institutions to Credit Information Companies

(Release date – 8 August 2024)

The Reserve Bank of India has mandated that Credit Information Companies (CICs) and Credit Institutions (CIs) update credit information on a fortnightly basis, effective January 1, 2025. This change aims to provide more current information for credit decisions, with updates required on the 15th and last day of each month. CICs must ingest this data within five days of receipt, and any non-compliance will result in penal action. CICs must also report non-adhering CIs to the RBI biannually. These measures are intended to enhance the accuracy

Review of regulatory framework for HFCs and harmonisation of regulations applicable to HFCs and NBFCs

(Release date – 12 August 2024)

The Reserve Bank of India has reviewed and revised the regulatory framework for Housing Finance Companies (HFCs) to harmonise it with the regulations applicable to Non-Banking Financial Companies (NBFCs). Effective January 1, 2025, the revised regulations include stricter prudential parameters for deposit acceptance, increased liquid asset requirements, and alignment of safe custody regulations with those of NBFCs. Additionally, the ceiling on public deposits for HFCs has been reduced, and the maximum tenure for public deposits has been shortened to sixty months. These changes aim to ensure a consistent regulatory approach across HFCs and NBFCs while considering the specialised nature of HFCs.

Review of Risk Weights for Housing Finance Companies (HFCs)

(Release date – 12 August 2024)

The Reserve Bank of India has revised the risk weights for Housing Finance Companies (HFCs) to address anomalies in the computation of risk-weighted assets for undisbursed housing loans and other loans. The risk-weighted assets for undisbursed loans will now be capped at the level of equivalent disbursed loans. Additionally, the risk weight for fund-based and non-fund-based exposures to Commercial Real Estate-Residential Buildings classified as standard will be set at 75%, while non-standard exposures will follow the 'Other Assets' category at 100%. These changes are effective immediately, with all other instructions remaining unchanged.

Review of Master Direction - Non-Banking Financial Company – Peer to Peer Lending Platform (Reserve Bank) Directions, 2017

(Release date – 16 August 2024)

The Reserve Bank of India has reviewed and amended the Master Direction for Non-Banking Financial Company – Peer to Peer Lending Platforms (NBFC-P2P) to address violations and clarify provisions. The amendments include prohibiting NBFC-P2Ps from assuming any credit risk, restricting cross-selling of insurance products that act as credit enhancements, and ensuring proper fund transfer mechanisms through escrow accounts. Additionally, the aggregate exposure of lenders is capped, and detailed disclosures about borrowers and portfolio performance are mandated. These changes aim to ensure compliance and proper functioning of NBFC-P2P platforms, with most provisions effective immediately and some within ninety days.

Processing of e-Mandates for Recurring Transactions

(Release date – 22 August2024)

The RBI has updated the e-mandate framework to include auto-replenishment of balances in FASTag and National Common Mobility Card (NCMC) under its provisions. This update allows for automatic balance replenishment when it falls below a customer-set threshold, without requiring a pre-debit notification. All other existing instructions under the e-mandate framework remain applicable. This change is effective immediately as per the Payment and Settlement Systems Act, 2007.

Cessation of "Krung Thai Bank Public Company Limited" as a banking company within the meaning of sub section (2) of Section 36 (A) of the Banking Regulation Act, 1949

(Release date – 22 August 2024)

The RBI has notified that "Krung Thai Bank Public Company Limited" has ceased to be recognised as a banking company under the Banking Regulation Act, 1949, effective from 3 July 2024. This change was published in the Gazette of India between 17 and 23 August 2024.

Inclusion of "UBS AG" in the Second Schedule of the Reserve Bank of India Act, 1934

(Release date – 22 August 2024)

The RBI has announced that "UBS AG" has been included in the Second Schedule of the Reserve Bank of India Act, 1934. This inclusion was formalised through a notification dated 4 June 2024 and published in the Gazette of India between 17 and 23 August 2024.

Cessation of "Credit Suisse AG" as a banking company within the meaning of sub section (2) of Section 36 (A) of the Banking Regulation Act, 1949

(Release date – 22 August 2024)

The RBI has notified that "Credit Suisse AG" has ceased to be recognised as a banking company under the Banking Regulation Act, 1949, effective from 4 June 2024. This change was published in the Gazette of India between 17 and 23 August 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

(Release date – 27 August 2024)

The RBI has updated its guidelines under Section 51A of the Unlawful Activities (Prevention) Act, 1967, to reflect changes in the United Nations Security Council's ISIL (Da'esh) and Al-Qaida Sanctions List. The update, based on a press release from the Ministry of External Affairs, involves the removal of Yassine Chekkouri from the sanctions list.

Regulated Entities (REs) must ensure they do not maintain accounts for individuals or entities on these lists and must follow the procedures outlined in the Master Direction on Know Your Customer (KYC). The updated lists and further details are available on the UNSC's website.

Interest Equalisation Scheme (IES) on Pre and Post Shipment Rupee Export Credit

(Release date – 29 August2024)

The Government of India has extended the Interest Equalisation Scheme (IES) on Pre and Post Shipment Rupee Export Credit until 31 August 2024, effective from 1 July 2024. This extension is specifically for MSME Manufacturer exporters, excluding non-MSME exporters from the scheme's benefits beyond 30 June 2024. Additionally, the interest equalisation is capped at INR 1.66 Crore per Importer-Exporter Code (IEC) for the extended period. All other existing provisions of the scheme remain unchanged.

Scheme for Trading and Settlement of Sovereign Green Bonds in the International Financial Services Centre in India

(Release date – 29 August2024)

The RBI has introduced a scheme for trading and settlement of Sovereign Green Bonds in the International Financial Services Centre (IFSC) in India. This scheme allows eligible investors, including certain foreign entities and IFSC Banking Units (IBUs), to invest in these bonds. The scheme outlines the roles of authorised depositories and clearing corporations, defines eligible securities, and specifies the participation rules for primary and secondary markets. It aims to facilitate investments in Sovereign Green Bonds, promoting sustainable finance within the IFSC framework.

Acknowledgments

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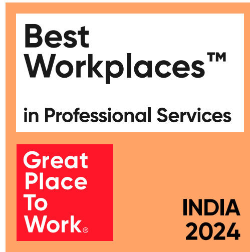

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