

RBI UPDATES

1. RESOLUTION FRAMEWORK FOR COVID-19-RELATED STRESS

- a) On **August 6, 2020**, the Reserve Bank of India ("RBI") issued a circular bearing no. **DOR.No.BP.BC/3/21.04.048/2020-21** on '*Resolution Framework for COVID-19 related Stress*' ("**Resolution Framework**") providing for a resolution window under the existing RBI (Prudential Framework for Resolution of Stressed Assets) Directions 2019, dated June 7, 2019 ("**Prudential Framework**"), with a view to mitigate the financial stress faced by borrowers on account of the economic fallout of the COVID-19 pandemic.
- b) The Prudential Framework provides for recognising incipient stress in loan accounts and a principle-based resolution framework for addressing such defaults in a normal scenario. However, any concession offered to a borrower under such a resolution framework leads to a downgrade in the asset classification of the borrower's account, except in case of change in ownership in the prescribed manner.
- c) Keeping in mind the significant risks posed to the financial stability of the borrowers in these unprecedented times, the RBI has introduced the Resolution Framework to enable lenders to implement a **resolution plan** in respect of eligible borrowers without change in ownership, as well as personal loans, while classifying such exposures as 'standard' subject to the prescribed conditions. The **reference date** for the outstanding amount of debt that can be considered for resolution under the Resolution Framework shall be **March 1, 2020**.
- d) Given that the Prudential Framework is applicable to only certain specified categories of lending institutions, the applicability of the Resolution Framework has been broadened to include all Commercial Banks, Primary (Urban) Co-Operative Banks/State Co-Operative Banks/ District Central Co-Operative Banks, All-India Financial Institutions and Non-Banking Financial Companies (including Housing Finance Companies) ("**Lenders**"). Accordingly, exposures of lending institutions not covered by the Prudential Framework will also be included for any resolution under the Resolution Framework.
- e) It is pertinent to note that all the norms as applicable to implementation of a resolution plan and the specific implementation conditions as set out in the Prudential Framework, shall continue to be applicable to any resolution plan implemented under the Resolution Framework.

A. Eligible Exposures

All borrowers/ facilities save and except the following categories, shall be eligible for the resolution process under the Resolution Framework ("**Eligible Loans**"):

1. Exceptions as specified under the Prudential Framework;
2. MSME borrowers whose aggregate exposure to the Lenders, collectively, is **₹ 25 crore or less**, as on March 1, 2020;
3. **Farm credit** as mentioned in Master Direction FIDD.CO.Plan.1/04.09.01/2016-17 dated July 7, 2016 issued by the RBI on priority sector lending;
4. **Loans** to primary agricultural credit societies, farmers' service societies and large-sized Adivasi multi-purpose societies for on-lending to agriculture;

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5. Exposures of the Lenders to **financial service providers**, as defined in the Insolvency and Bankruptcy Code, 2016;
6. **Exposures of the Lenders** to central, state and local government bodies and body corporates established by an Act of Parliament or State Legislature; and
7. **Exposures of housing finance companies** where the account has been rescheduled in terms of para 2(1)(zc)(ii) of the Master Circular - The Housing Finance Companies (NHB) Directions, 2010 after March 1, 2020, unless a resolution plan under the Resolution Framework has been invoked by other Lenders. The Lenders are required to **formulate Board approved policies** on implementation of viable resolution plans for eligible borrowers and ensure that the resolution under the Resolution Framework is extended only to borrowers having stress on account of COVID-19. Further, the aforesaid Board approved policy should set out the **eligibility criteria for borrowers** as well as the due diligence considerations to be fulfilled for evaluating the need for a resolution plan.

Resolution of Stress in Exposures other than Personal Loans

- a) Eligible Loans, other than personal loans, classified as '**standard**', but not in default for more than 30 days with the relevant Lenders as on March 1, 2020, will be **eligible for resolution** under the Resolution Framework. The Lenders will have to continue to classify such accounts as 'standard' till the date on which the borrower and the relevant Lenders agree to proceed with a resolution plan.
- b) Any resolution under the Resolution Framework has to be invoked anytime **on or before December 31, 2020** and has to be implemented within a period of **180 days** from the date of invocation.

Single Lender Exposure

Where there is only one Lender with exposure to the borrower, the relevant Lender may take the decision regarding the request for resolution by such borrower, as per its Board approved policy.

Multiple Lender Exposure

In case of borrowers having exposures to multiple lenders, the following conditions will have to be complied with in connection with implementation of a resolution plan:

- a) The **resolution process** shall be treated as invoked only if the relevant Lenders representing 75% by value of the total outstanding credit facilities (fund based as well as non-fund based), and not less than 60% by number, agree to invoke the same.
- b) An **inter creditor agreement ("ICA")** will have to be signed by all the Lenders, within 30 days from the date of invocation of the resolution process. Lending entities, other than those covered under the Resolution Framework, can also sign the ICA and agreed to be bound by it. The ICA should provide mechanisms for dispute redressal and information sharing inter se the Lenders.
- c) If Lenders representing at least 75% by value, and not less than 60% by number, do not sign the ICA within the aforesaid timeline then the **invocation will lapse** and the resolution process cannot be invoked again in respect of such borrower under the Resolution Framework.
- d) **Lenders, who sign the ICA** within the aforesaid timeline, shall keep provisions from the date of implementation of the resolution plan as per the extant income recognition and asset classification ("**IRAC**") norms immediately before implementation, or 10% of the total debt held by the ICA signatories post implementation of the plan (residual debt), whichever is higher.

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- e) **Lenders failing to sign the ICA** within the aforesaid timeline shall, immediately upon the expiry of the aforesaid timeline, keep provisions of 20% of the debt on their books as on that date (carrying debt), or the provisions required as per the extant IRAC norms, whichever is higher.
- f) In cases where the invocation lapses as aforesaid, the Lenders which had earlier agreed for invocation of the resolution process but did not sign the ICA will have **to hold 20% provisions on their carrying debt.**
- g) All receipts and repayments by the borrower (having consortium/ multiple banking arrangements), as well as all additional disbursements to such borrower as part of the resolution plan, shall be routed through an **escrow account** maintained with one of the Lenders Such escrow account should be operated in the manner set out in the escrow agreement to be entered into between the Lenders and the escrow bank.

Expert Committee

The RBI will be constituting an Expert Committee, which will recommend the financial parameters required to be factored into the assumptions that form part of each resolution plan, and the sector specific benchmark ranges for such parameters These parameters will cover aspects related to leverage, liquidity, debt serviceability, etc.

Large Exposures

- a) Resolution plans for accounts where the aggregate exposure is **₹100 crore and above** at the time of invocation of the resolution process, shall require an independent credit evaluation by one credit rating agency authorised by the RBI under the Prudential Framework.
- b) Resolution plans, where the aggregate exposure of the Lenders at the time of invocation of the resolution process is **₹ 1500 crore and above**, will be vetted by the Expert Committee. However, the Expert Committee's scope will be to verify whether all requisite processes have been followed by the parties concerned without interfering with the commercial judgment exercised by the Lenders.

B. Features of the Resolution Plan

- a) A resolution plan may involve any action, including sale of the exposure to other entities, change in ownership and restructuring, except compromise settlements which will continue to be governed by the **provisions of the Prudential Framework** or the extant instructions, if any, applicable to the specific category of Lenders. The resolution plan can also include sanctioning of additional facilities even if there is no renegotiation of the existing debt.
- b) Lenders can allow **extension of the residual tenor** of the facility, with or without payment moratorium, by a period not more than 2 years. Such moratorium period will come into force immediately upon implementation of the resolution plan.
- c) It is pertinent to note that the **revised assumptions** that form part of the resolution plan should at least factor in the financial parameters decided by the Expert Committee as mentioned above.

C. Conversion of debt into securities

- a) A resolution plan may provide for **conversion** of a portion of the debt into equity or other marketable, non-convertible debt securities issued by the borrower. However, in such cases the **amortisation schedule** and the coupon on such debt securities should be similar to the terms of the debt held on the books of the Lenders post implementation of the resolution plan.

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- b) The valuation of the equity instruments issued by the borrower upon conversion shall be as per the Prudential Framework and that of the debt securities issued by the borrower shall be as per the Master Circular - Prudential Norms for Classification, Valuation and Operation of Investment Portfolio by Banks dated July 1, 2015 (as amended from time to time), or other relevant instructions as applicable to any specific category of Lenders. In the event, the Lenders convert any portion of the debt into any other security, the same shall collectively be valued at Re.1.

D. Resolution of Stress in Personal Loans

- a) The Resolution Framework provides for resolution of stress in personal loan accounts classified as '**standard**', but not in default for more than 30 days with the relevant Lenders as on **March 1, 2020**. However, the Resolution Framework does not cover personal loans extended to the staff/ officers of the relevant Lenders.
- b) The Lenders have to continue to classify such loan accounts as 'standard' till the date on which the borrower and the relevant Lenders agree to proceed with a resolution plan. Any resolution under the Resolution Framework has to be invoked anytime **on or before December 31, 2020** and has to be implemented within a period of 90 days from the date of invocation.
- c) The resolution plans may include rescheduling of payments, conversion of interest accrued/ to be accrued into another credit facility, or, granting of moratorium, based on an assessment of income streams of the borrower, subject to a **maximum of 2 years**.
- d) The resolution plan will be deemed to be implemented only after all the **necessary documentation** is completed, the revised terms are reflected in the books of the relevant Lenders and the borrower is not in default as per the revised terms.

E. Asset Classification and Provisioning

- a) If a resolution plan is implemented in accordance with the Resolution Framework, the asset classification of the concerned borrowers' accounts classified as 'standard' may be retained as such upon implementation of the plan. Borrowers' accounts which may have slipped into '**non-performing assets**' ("**NPAs**") between the invocation and implementation of the resolution plan can be upgraded as 'standard', as on the date of implementation of the plan.
- b) Additional credit facilities provided to borrowers in respect of whom the resolution process has been invoked, if sanctioned even before implementation of the plan in order to meet the interim liquidity requirements of the borrower, can be classified as 'standard' till implementation of the plan regardless of the actual performance of the borrower with respect to such facilities in the interim.
- c) If the resolution plan is not implemented within the stipulated timeline, the **asset classification of such additional credit facilities** will be as per the actual performance of the borrower with respect to the same or the rest of the credit facilities, whichever is worse.
- d) In respect of personal loans where a resolution plan is implemented, the Lenders shall keep provisions from the date of implementation of the resolution plan as per the extant IRAC norms immediately before implementation, or 10 % of the renegotiated debt exposure of Lenders post implementation (residual debt), whichever is higher.
- e) Any additional provisions maintained by the Lenders in terms of the RBI's circular on 'COVID-19 regulatory Package', dated April 17, 2020, to the extent not already reversed, can be utilised for meeting the **provisioning requirements** under the Resolution Framework.

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- f) Further, any additional provisions maintained in terms of the Prudential Framework can be reversed at the time of invocation of the resolution plan under the Resolution Framework. However, if the plan is not implemented within **180 days from its invocation**, the provisions as per the Prudential Framework will have to be maintained as if a resolution process was never invoked under the Resolution Framework.

F. Reversal of provisions

- a) In case of personal loans, half of the provisions can be written back upon the borrower paying at least **20% of the residual debt** without slipping into NPA post implementation of the plan, and the remaining half can be written back upon the borrower paying another 10% of the residual debt without slipping into NPA subsequently.
- b) In case of **resolution of exposures other than personal loans**, the provisions maintained by the ICA signatories can be reversed in the manner as mentioned above. However, in respect of the non-ICA signatories, half of the provisions can be reversed upon repayment of **20% of the carrying debt**, and the other half can be reversed upon repayment of another 10% of the carrying debt, subject to the required provisions as per the extant **IRAC norms being maintained**.

G. Performance post implementation of plan

- a) In case of personal loans, after implementation of the resolution plan, the subsequent asset classification will be governed as per the extant IRAC norms or other relevant instructions as applicable to the **specific category of Lenders**.
- b) In case of **exposures other than personal loans**, any default by the borrower with any of the ICA signatories during the monitoring period will trigger a **review period of 30 days**. For this purpose, 'monitoring period' means the period starting from the date of implementation of the resolution plan till the borrower pays 10% of the residual debt, subject to a minimum of 1 year from the commencement of the first payment of interest or principal (whichever is later) on the credit facility with the longest moratorium period.
- c) In the event the **borrower is in default** with any of the ICA signatories at the end of the aforesaid review period, the asset classification of the borrower with all the Lenders, including the non-ICA signatories, will be downgraded to NPA from the date of implementation of the resolution plan or the date from which the borrower had been classified as NPA before implementation of the plan, whichever is earlier.
- d) If the **monitoring period is over** without the account being classified as NPA, the asset classification norms will revert to the criteria laid out in the extant IRAC norms or other relevant instructions as applicable to the specific category of Lenders.

H. Disclosures and Credit Reporting

- a) Lenders are required to make **necessary disclosures in their quarterly/ half-yearly/ annual financial statements** as per the prescribed formats, as applicable, in respect of accounts where resolution a plan is implemented.
- b) Further, the credit reporting by the Lenders in respect of borrowers where a resolution plan is implemented should reflect the "restructured" status of the account if the resolution plan involves re-negotiations that would be classified as **restructuring** under the Prudential Framework.

The link for aforesaid Notification is mentioned below:

<https://rbidocs.rbi.org.in/rdocs/notification/PDFs/NT168F87DBE0F71643B3B17BC8278108C16B.PDF>

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2. MICRO, SMALL AND MEDIUM ENTERPRISES (MSME) SECTOR – RESTRUCTURING OF ADVANCES

On **August 6, 2020** RBI vide circular bearing No. **DOR.No.BP.BC/4/21.04.048/2020-21** has informed to all Commercial Banks (including Small Finance Banks, Local Area Banks and Regional Rural Banks), all Primary (Urban) Co-operative Banks/State Co-operative Banks / District Central Co-operative Banks, All-India Financial Institutions and all Non-Banking Financial Companies, that it has issued a circular on Micro, Small and Medium Enterprises (MSME) sector for restructuring of advances. RBI has planned to extend the scheme in the wake of the COVID-19 stress. The resolution framework was implemented by RBI on February 11, 2020 vide circular no. DOR.No.BP.BC.34/21.04.048/2019-20. Accordingly, existing loans to MSMEs classified as 'standard' may be restructured without a downgrade in the asset classification, subject to the following conditions.

Following conditions have been issued by the RBI:

- a) The **aggregate exposure**, including non-fund-based facilities, of banks and NBFCs to the borrower does not exceed ₹25 crore as on March 1, 2020.
- b) The borrower's account was a '**standard asset**' as on March 1, 2020.
- c) The **restructuring of the borrower account** is implemented by March 31, 2021.
- d) The borrowing entity is **GST-registered** on the date of implementation of the restructuring. However, this condition will not apply to MSMEs that are exempt from GST-registration. This shall be determined based on exemption limit obtaining as on March 1, 2020.
- e) Asset classification of borrowers classified as standard may be retained as such, whereas the accounts which may have slipped into **NPA category** between March 2, 2020 and date of implementation may be upgraded as 'standard asset', as on the date of implementation of the restructuring plan. The asset classification benefit will be available only if the restructuring is done as per provisions of this circular.
- f) As hitherto, for accounts restructured under these guidelines, banks shall maintain **additional provision of 5%** over and above the provision already held by them.

All other provisions mentioned in the circular issued on February 11, 2020 shall remain applicable.

The link for aforesaid Notification is mentioned below:

<https://rbidocs.rbi.org.in/rdocs/notification/PDFs/NT17996B01058D314E1FA0CD74067DE933AD.PDF>

3. OPENING OF CURRENT ACCOUNTS BY BANKS - NEED FOR DISCIPLINE

On **August 6, 2020** RBI has issued a circular bearing no. **DOR.No.BP.BC/7/21.04.048/2020-21** addressed all Scheduled Commercial Banks and all Payments Banks regarding the revised instructions for the opening of current accounts by banks. The instructions for this purpose were earlier issued on July 02, 2015 vide Circular no. DBR.Leg.BC.25./09.07.005/2015-16. The instructions have been further reviewed and revised. As regards existing current and CC/OD accounts, banks shall ensure compliance with the above instructions within a period of three months from the date of this circular.

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Following are the revised instructions:

- a) No bank shall open current accounts for customers who have availed credit facilities in the form of **cash credit (CC)/ overdraft (OD)** from the banking system and all transactions shall be routed through the CC/OD account.
- b) In case the bank's exposure to the borrower is **less than 10% of the exposure** of the borrowing system, to that borrower, while credits are freely permitted, debits to the CC/OD account can only be for credit to the CC/OD account of that borrower with a bank that **has 10% or more of the exposure** of the banking system to that borrower. Funds will be remitted from these accounts to the said transferee CC/OD account at the frequency agreed between the bank and the borrower. Further, the credit balances in such accounts shall not be used as margin for availing any non-fund based credit facilities.
- c) In case there is more than one bank having **10% or more of the exposure of the banking system** to that borrower, the bank to which the funds are to be remitted may be decided mutually between the borrower and the banks. It may be noted that banks with exposure to the borrower of less than 10% of the exposure of the banking system can offer working capital demand loan (**WC DL**) / working capital term loan (**WCTL**) facility to the borrower
- d) Where a bank has a share of **10 % or more in the total exposure** of the banking system to the borrower, it can **provide CC/OD facility** as hitherto.
- e) In case of borrowers covered under guidelines on loan system for delivery of bank credit issued vide circular DBR.BP.BC.No.12/21.04.048/2018-19 dated December 5, 2018, bifurcation of working capital facility into loan component and cash credit component shall henceforth be maintained at individual bank level in all cases, including consortium lending
- f) Customers who have not taken the facility of CC/OD from any banks, can open their current accounts according to these guidelines:
 1. Banks must put an **escrow mechanism** in cases where the exposure of the banking system is more than ₹ 50 crores. Only the escrow managing banks can open/ maintain the current accounts of such borrowers.
 2. There is **no restriction on opening of 'collection accounts'** by lending banks subject to the condition that funds will be remitted from these accounts to the said escrow account at the frequency agreed between the bank and the borrower. The balances in such accounts shall not be used as margin for availing any non-fund based credit facilities. While there is no prohibition on amount or number of credits in 'collection accounts', **debts in these accounts shall be limited** to the purpose of remitting the proceeds to the said escrow account. Non-lending banks shall not open any current account for such borrowers
 3. Borrowers where exposure of the banking system is ₹ 5 crore or more but less than ₹50 crore, there is **no restriction on opening of current accounts** by the lending banks. However, non-lending banks may open only collection accounts as defined at (1) and (2) above.
 4. Where the banking exposure is less than 5 crores, the banks can open current accounts, but they must obtain an undertaking from the consumers if and when the credit facilities availed by them from the banking system becomes ₹5 crore or more.
 5. Banks are **free to open current accounts of prospective customers** who have not availed any credit facilities from the banking system, subject to necessary due diligence as per their Board approved policies

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- g) Banks should monitor all such activities regularly on a quarterly basis, to ensure the compliances.
- h) Banks should not route drawal from term loans through current accounts. Since term loans are meant for specific purposes, the funds should be remitted directly to the supplier of goods and services. Expenses incurred by the borrower for day to day operations should be routed through CC/OD account, if the borrower has a CC/OD account, else through a current account

The link for aforesaid Notification is mentioned below:

<https://rbidocs.rbi.org.in/rdocs/notification/PDFs/NT20097D966B84C34C0CA1B6D2E0A62B5BFD.PDF>

4. ONLINE DISPUTE RESOLUTION (ODR) SYSTEM FOR DIGITAL PAYMENTS

On **August 06, 2020** RBI issued a circular bearing no. **DPSS.CO.PD No.116/02.12.004/2020-21** to announce an online dispute resolution (ODR) system for digital payments. The authorities aim to have a vision for increase in the usage of online payments for 2020-21. Thus, there is a need to establish a grievance redressal mechanism for addressing any disputes arising in the process.

The Payment System Operators (PSO's) shall have **grievance redressal mechanism by January 01, 2021** and provide the access of such systems to its participating member It is applicable to all authorised PSOs – banks and non-banks – and their participating members [Payment System Participants (PSPs)]. The ODR system should be a **transparent, rule-based, system-driven, user-friendly and unbiased mechanism** for resolving customer disputes and grievances, with zero or minimal manual intervention.

Structure of the ODR system: Each PSO shall make available an ODR system for resolving disputes and grievances arising out of failed transactions and provide the participating PSPs an **access to the system**. The PSO and its PSPs shall provide the customers an access for lodging the disputes and grievances **relating to failed transactions**, irrespective of such transactions being on-us or off-us in nature

Types of Transactions Covered: Harmonisation of Turn Around Time (TAT) and customer compensation for failed transactions using authorised Payment Systems which was covered in the notification issued by the authorities on September 20, 2019 vide no. DPSS.CO.PD.No.629/02.01.2014/2019-20.

Lodging and Tracking of Disputes and Grievances:

- a) Customers shall be provided with the **facility of SMS, calls, web lodging and offline paper lodging** under the grievance redressal mechanism.
- b) Unified Payment Interface (**UPI**) and **Third-Party App providers** shall be covered as well.
- c) The mechanism of lodging complaints shall be simple and shall **ask for minimum details**.
- d) A **unique reference number** will be allotted to the customer by the ODR system once the dispute or grievance has been lodged.
- e) The grievance redressal mechanism shall provide the **access to its participants to register** the complaints relating to failed transactions and providing **appropriate resolution** for the same.

The link for aforesaid Notification is mentioned below:

<https://rbidocs.rbi.org.in/rdocs/notification/PDFs/21ODR602F0A579EB246AA885776A76122DB0C.PDF>

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5. OFFLINE RETAIL PAYMENTS USING CARDS / WALLETS / MOBILE DEVICES – PILOT

On **August 06, 2020** RBI vide circular bearing No. **DPSS.CO.PD. No.115/02.14.003/2020-21** has launched a pilot scheme to be conducted for a limited period with an aim to provide an offline retail payments using cards, wallets, mobile devices. The pilot scheme will offer offline digital payment options to banks and non-banks but with certain terms and conditions. The Scheme shall be applicable till March 31, 2021.

Due to the internet connectivity issues in certain areas, the digital payment system is not being implemented appropriately. The RBI feels that launching the pilot scheme for the offline payment will help the people adopt digital payments as well, which has been done for a limited period.

The terms and conditions are as follows:-

- a. Payments could be made using **cards, wallets or mobile devices** or through any other channel.
- b. Payments may be made in **remote or proximity mode**.
- c. Payment transactions can be offered **without any Additional Factor of Authentication (AFA)**.
- d. The **upper limit** of a payment transaction shall be ₹ 200.
- e. The **total limit** for offline transactions on an instrument shall be ₹ 2,000, at any point of time. Resetting of the limit shall be allowed in online mode with AFA.
- f. The PSO shall send **real time transaction** alerts to users as soon as transaction details are received.
- g. **Contactless payments** shall adhere to EMV standards, as hitherto.
- h. Payment transactions in **offline mode** without AFA shall be at the choice of the user.
- i. The acquirer shall incur all liabilities arising out of technical or security issues at merchant's end.
- j. These payments shall be covered by the provisions of the limited customer liability circular DBR.No.Leg.BC.78/09.07.005/2017-18 dated July 06, 2017 and DPSS.CO.PD.No.1417/02.14.006/2018-19 dated January 04, 2019.
- k. Before introducing operations under the scheme, **PSOs shall inform Reserve Bank** the detailed specifications of the payment solutions they would offer. They may, however, launch operations without waiting for any approval from the Reserve Bank.
- l. **Entities other than PSOs** having innovative solutions may tie-up with PSOs to offer their products.
- m. Reserve Bank retains the right to advise a PSO to stop transactions and exit the pilot in the event of non-compliance of these conditions

The link for aforesaid Notification is mentioned below:

<https://rbidocs.rbi.org.in/rdocs/notification/PDFs/NOTI22E337913692C04560A953EEC75CCF099C.PDF>

6. SYSTEM-BASED ASSET CLASSIFICATION – UCBS

On **August 12, 2020** RBI has issued a circular bearing no. **DoR (PCB). BPD. Cir. No.1/13.05.001/2020-21** for system-based asset classification. RBI issued a master circular no.DCBR.BPD. (PCB) MC No. 12/09.14.000/2015-26 dated July 01, 2015 giving out consolidated instructions on the asset classification and other such related matters. Further, to improve efficiency, transparency and integrity of the asset classification process, RBI has issued relevant instructions to be followed by Urban Cooperative Banks (UCB's).

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The following instructions have been given by the RBI:

- a) UCBs having **total assets of ₹2000 crore or above** as on March 31, 2020 shall implement system-based asset classification with effect from June 30, 2021.
- b) UCBs having **total assets of ₹1000 crore or above but less than ₹2000 crore** as on March 31, 2020 and having self-assessed themselves as being under Level III or Level IV in terms of the circular DoS.CO/CSITE/BC.4083/31.01.052/2019-20 dated December 31, 2019 on Comprehensive Cyber Security Framework for UCBs shall implement system-based asset classification with effect from September 30, 2021.
- c) UCBs which meet the above criteria as at the end of the current or subsequent financial years shall implement system-based asset classification **within a period of six months** from the end of the financial year concerned.
- d) For smooth implementation of the system, all concerned UCBs may conduct pilot/parallel run and evaluate the results for accuracy/integrity of the asset classification in compliance with the applicable RBI instructions so as to ensure that they are ready for **implementation of the system-based asset classification from the appointed date.**

UCBs not meeting the above criteria are also encouraged to voluntarily implement the system-based asset classification in their own interest.

The link for aforesaid Circular is mentioned below:

<https://rbidocs.rbi.org.in/rdocs/notification/PDFs/SACUCBSBA2671E100174A21BFEAB4D1CC10E4AD.PDF>

7. REVIEW OF GUIDELINES FOR CORE INVESTMENT COMPANIES

On **August 13, 2020** RBI through its circular bearing no. **DoR(NBFC)(PD) CC. No. 117/03.10.001/2020-21** has issued guidelines for Core Investment Companies (CIC). After the comments and suggestions received from the stakeholders, RBI has decided to revise these guidelines.

The following guidelines have been revised:

- a) While computing Adjusted Net Worth (ANW), the amount representing any direct or indirect capital contribution made by one CIC in another CIC, to the extent such amount exceeds ten per cent of Owned Funds of the investing CIC, shall be deducted. All other terms and conditions for computation of ANW remain the same as per the Master Direction on Core Investment Companies (Reserve Bank) Directions, 2016.
- b) The deduction requirement shall take immediate effect for any investment made by a CIC in another CIC after date of issue of this circular. In cases where the investment by a CIC in another CIC is already in excess of 10 percent as on the date of this circular, the CIC need not deduct the excess investment as on the date of this circular from owned funds for computation of its ANW till March 31, 2023.
- c) With the investment of one CIC to another CIC, the involvement has been restricted to two CIC's forming a group structure. All the existing entities shall reorganise their group structure and adhere to these guidelines latest by March 31, 2023.

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- d) The Parent CIC (CIC investing the most amount) shall have a Group Risk Management Committee (GMRC). The GRMC shall report to the Board of the CIC that constitutes it and shall meet at least once in a quarter.

Following is the constitution of the GMRC:

- i. There shall be minimum 5 members including executive members.
- ii. Atleast 2 members shall be Independent Directors, one of whom should be the Chairperson of the GMRC.
- iii. All the members shall have adequate and commensurate experience in risk management practices.

Responsibilities of the GMRC:

- i. Analyse the material risks to which the group, its businesses and subsidiaries are exposed. It must discuss all risk strategies both at an aggregated level and by type of risk and make recommendations to the Board in accordance with the group's overall risk appetite.
 - ii. Identify potential intra-group conflicts of interest.
 - iii. Assess whether there are effective systems in place to facilitate exchange of information for effective risk oversight of the group.
 - iv. Assess whether the corporate governance framework addresses risk management across the group.
 - v. Carry out periodic independent formal review of the group structure and internal controls.
 - vi. Articulate the leverage of the Group and monitor the same.
- e) CIC's having asset value of more than ₹ 5000 crores shall appoint a **Chief Risk Officer (CRO)** with the roles and responsibilities properly stated.
- f) CICs shall **submit to the Board, a quarterly statement** of deviation certified by the Chief Executive Officer/ Chief Financial Officer, indicating deviations in the use of proceeds of any funding obtained by the CIC from creditors and investors from the objects/ purpose stated in the application, sanction letter or offer document for such funding
- g) Proper **corporate governance policies** shall be put into place and shall be monitored from a time to time basis.
- h) CICs shall prepare **Consolidated Financial Statements** as per provisions of Companies Act, 2013, so as to provide a clear view of the financials of the group as a whole.
- i) CICs are allowed to **invest in money market instruments**, including mutual funds which make investments in money market instruments/debt instruments with a maturity of up to 1 year.
- j) CICs (a) with an asset size of **less than ₹100 crore**, irrespective of whether accessing public funds or not and (b) with an asset size of **₹100 crore and above** and **not accessing public funds** are **not required to register with the Bank** under Section 45IA of the RBI Act, 1934.
- k) A Systemically Important Core Investment Company, as defined in sub-paragraph (xxv) of paragraph 3 of the Core Investment Companies (Reserve Bank) Directions, 2016 will henceforth be termed as a **Core Investment Company**. A Core Investment Company, which is not required to be registered in terms of point (j) above, will henceforth be termed as **'Unregistered CIC' instead of 'exempted CIC'**.

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- l) CICs implementing **Indian Accounting Standards** shall adhere to the circular DOR (NBFC).CC.PD No.109/22.10.106/2019-20 dated March 13, 2020 on Implementation of Indian Accounting Standards
The link for aforesaid Notification is mentioned below:

<https://rbidocs.rbi.org.in/rdocs/notification/PDFs/CCN117RCIC00691E0EE2F14E65847C760EE4FDCAC4.PDF>

8. NEW DEFINITION OF MICRO, SMALL AND MEDIUM ENTERPRISES – CLARIFICATIONS

On **August 21, 2020** RBI vide its circular bearing no. **FIDD.MSME & NFS.BC.No.4/06.02.31/2020-21** has clarified the new criteria for classifying the enterprises as micro, small and medium enterprises (MSME).

Classification of Enterprises as per new definition:

- a) Classification of the enterprises as per the provisions of the MSMED Act, 2006.
- b) All the enterprises are required to register under Udyam Registration Certificate, via online portal. All lenders may, therefore, obtain 'Udyam Registration Certificate' from the entrepreneurs.

Validity of EM Part II and UAM's issued till June 30, 2020:

- a) The **existing** Entrepreneurs Memorandum (EM) Part II and Udyog Aadhaar Memorandum (UAMs) of the MSMEs obtained till June 30, 2020 shall remain **valid till March 31, 2021**. Further, all enterprises registered till June 30, 2020, shall file **new registration** in the Udyam Registration Portal well **before March 31, 2021**.
- b) 'Udyam Registration Certificate' issued on self-declaration basis for enterprises **exempted from filing GSTR and / or ITR returns** will be valid for the time being, upto March 31, 2021

Value of Plant and Machinery or Equipment:

The online form for Udyam Registration captures **depreciated cost as on 31st March each year** of the relevant previous year. Therefore, the value of Plant and Machinery or Equipment for all purposes of the Notification No. S.O. 2119(E) dated June 26, 2020 and for all the enterprises shall mean the **Written Down Value (WDV) as at the end of the Financial Year** as defined in the Income Tax Act and not cost of acquisition or original price, which was applicable in the context of the earlier classification criteria..

The link for aforesaid Notification is mentioned below:

<https://rbidocs.rbi.org.in/rdocs/notification/PDFs/NOTI262654FEA1F3864D858960F92C2E329696.PDF>

9. SUBMISSION OF RETURNS UNDER SECTION 31 OF THE BANKING REGULATION ACT, 1949 (AACS) – EXTENSION OF TIME

On **August 26, 2020** RBI vide its Circular no. **DoR (PCB).BPD.Cir.No.2/12.05.001/2020-21** informed the Chief Executive Officer, All Primary (Urban) Co-operative Banks that the time for submission of the returns under Section 31 of the Banking Regulation Act, 1949 for the financial year ended on March 31, 2020 is extended **upto September 30, 2020**.

The link for aforesaid Circular is mentioned below:

<https://rbidocs.rbi.org.in/rdocs/notification/PDFs/28EXTENSION41BEBB73A2394C3ABFDE7357D0E814EE.PDF>

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