RBI UPDATES

1. Master Directions- (Priority Sector Lending – Targets and Classification) Directions, 2020

On **September 04, 2020,** Reserve Bank of India (RBI) vide Notification No. FIDD.CO.Plan.BC.5/04.09.01/2020-21 has issued Master Directions on Priority Sector Lending (PSL) Guidelines with an objective to harmonies various instructions issued to Commercial Banks, SFBs, RRBs, UCBs and LABs and align these guidelines with emerging national priorities and bring sharper focus on inclusive development.

These Directions shall be called the Reserve Bank of India (Priority Sector Lending – Targets and Classification) Directions, 2020.

These Directions shall come into effect on the day they are placed on the official website of the Reserve Bank of India which is https://www.rbi.org.in

Applicability: The provisions of these Directions shall apply to every Commercial Bank [including Regional Rural Bank (RRB), Small Finance Bank (SFB), Local Area Bank] and Primary (Urban) Co-operative Bank (UCB) other than Salary Earners' Bank licensed to operate in India by RBI. The detailed guidelines are available on the link mentioned below.

https://rbidocs.rbi.org.in/rdocs/notification/PDFs/MDPSL803EE903174E4C85AFA14C335A5B0909.PDF

2. Resolution Framework for COVID-19 Pandemic -related Stress – Financial Parameters

(i) On **September 07, 2020** RBI vide Notification No. DOR.No.BP.BC/13/21.04.048/2020-21 notified setting up of an Expert Committee with **Shri K. V. Kamath** as the Chairperson, to make recommendations on the required financial parameters with sector specific benchmark ranges for such parameters to be factored in the **Resolution Plans** in respect of borrowers eligible under Part B of the Annex to the circular DOR. No. BP. BC/3/21.04.048/2020-21 dated August 6, 2020 **("Resolution Framework")** issued by RBI.

(ii) **The Expert Committee had submitted its recommendations to the Reserve Bank on September 4, 2020, which have been broadly accepted by the Reserve Bank**.

(iii) Accordingly, all lending institutions shall mandatorily consider the following key ratios while finalizing the Resolution Plans in respect of eligible borrowers under Part B of the Annex to the Resolution Framework:

Key Ratio	Definition
Total Outside Liabilities / Adjusted Tangible Net Worth (TOL/ATNW)	Addition of long-term debt, short term debt, current liabilities and provisions along with deferred tax liability divided by tangible net worth net of the investments and loans in the group and outside entities.
Total Debt / EBITDA	Addition of short term and long-term debt divided by addition of profit before tax, interest and finance charges along with depreciation and amortization.
Current Ratio	Current assets divided by current liabilities
Debt Service Coverage Ratio (DSCR)	For the relevant year addition of net cash accruals along with interest and finance charges divided by addition of current portion of long term debt with interest and finance charges.
Average Debt Service Coverage Ratio (ADSCR)	Over the period of the loan addition of net cash accruals along with interest and finance charges divided by addition of current portion of long term debt with interest and finance charges.

(iv) The **sector-specific thresholds** (ceilings or floors, as the case may be) for each of the above key ratios that should be considered by the Lending Institutions in the resolution assumptions with respect to an eligible borrower are given in the Annexure to this Notification. Further In respect of those sectors where the **sector-specific thresholds have not been specified**, Lending Institutions shall make their own internal assessments regarding TOL/ATNW and Total Debt/EBITDA. However, the current ratio and DSCR in all cases shall be 1.0 and above, and ADSCR shall be 1.2 and above.

(v) Lending Institutions are free to consider other financial parameters as well while finalizing the resolution assumptions in respect of eligible borrowers apart from the above mandatory key ratios and the sector-specific thresholds that have been prescribed. The above requirements are applicable even in cases when there is only one Lending Institution with exposure to an eligible borrower.

(vi) The ratios prescribed above are intended as floors or ceilings, as the case may be, but the Resolution Plans shall take into account the pre-Covid-19 operating and financial performance of the borrower and impact of Covid-19 on its operating and financial performance at the time of finalizing the Resolution Plan, to assess the cash flows in subsequent years, while stipulating appropriate ratios in each case.

(vii) Lending Institutions are expected to ensure compliance to TOL/ATNW agreed as per Resolution Plan at the time of implementation itself. Nevertheless, in all cases, this ratio shall have to be maintained as per the Resolution Plan by March 31, 2022 and on an ongoing basis thereafter. However, wherever the Resolution Plan envisages equity infusion, the same may be suitably phased-in over this period. All other key ratios shall have to be maintained as per the Resolution Plan by March 31, 2022 and on an ongoing basis thereafter.

(viii) The compliance in regard to meeting the agreed ratios must be monitored as financial covenants on an ongoing basis, and during subsequent credit reviews.

Other Clarifications - Applicability of ICA and Escrow account

(ix) Various requirements of the Resolution Framework, especially the mandatory requirement of ICA, wherever applicable, and maintenance of an escrow account after implementation of a Resolution Plan, shall be applicable at the borrower-account level, i.e. the legal entities to which the Lending Institutions have exposure to, which could include a Special Purpose Vehicle (SPV) having a legal-entity status, set up for a project.

(x) It is further clarified that signing of ICA is a mandatory requirement for all Lending Institutions in all cases involving multiple Lending Institutions, where the resolution process is invoked, and the requirement of additional provisions if the ICA is not signed within 30 days of invocation does not substitute for the mandatory nature of ICA.

Compliance with this regulatory requirement shall be assessed for all Lending Institutions as part of the supervisory review.

The link for aforesaid Notification and Annex is mentioned below:
https://rbidocs.rbi.org.in/rdocs/notification/PDFs/34COVID19122F09F4AE2A4C96B5A89E8250A5FF7F.PDF

3. Compliance functions in Banks and Role of Chief Compliance Officer (CCO)

On **September 11, 2020** RBI vide Notification No. DoS. CO.PPG./SEC.02/11.01.005/2020-21 has notified following guidelines to bring uniformity in approach followed by banks, as also to align the supervisory expectations on Chief Compliance Officers with best practices. This is due to the reason that RBI has observed that the banks follow diverse practices with regards to appointment of Chief Compliance Officer (CCO) in Bank.

Accordingly RBI has issued following guidelines for appointment of CCO

(i) **Policy –**

(a) A bank shall lay down a Board-approved compliance policy clearly spelling out its compliance philosophy, expectations on compliance culture covering Tone from the Top, Accountability, Incentive Structure and Effective Communication & Challenges thereof, structure and role of the compliance function, role of CCO, processes for identifying, assessing, monitoring, managing and reporting on compliance risk throughout the bank.

(b) This shall, inter-alia, adequately reflect the size, complexity and compliance risk profile of the bank, expectations on ensuring compliance to all applicable statutory provisions, rules and regulations, various codes of conducts (including the voluntary ones) and the bank's own internal rules, policies and procedures, and creating a disincentive structure for compliance breaches.

(c) The bank shall also develop and maintain a quality assurance and improvement program covering all aspects of the compliance function. The quality assurance and improvement program shall be subject to independent external review periodically (at least once in three years).

(d) The policy should lay special thrust on building up compliance culture; vetting of the quality of supervisory / regulatory compliance reports to RBI by the top executives, non-executive Chairman / Chairman and ACB of the bank, as the case may be. The policy shall be reviewed at least once a year;

(ii) **Tenor for appointment of CCO –**

(a) CCO shall be appointed for a minimum fixed tenure of not less than 3 years.

(b) The Audit Committee of the Board (ACB) / Managing Director (MD) & CEO should factor this requirement while appointing CCO;

(iii) **Transfer / Removal of CCO –**

CCO may be transferred / removed before completion of the tenure only in exceptional circumstances with the explicit prior approval of the Board after following a well-defined and transparent internal administrative procedure;

(iv) **Eligibility Criteria for appointment as CCO –**

(a) **Rank -** The CCO shall be a senior executive of the bank, preferably in the rank of a General Manager or an equivalent position (not below two levels from the CEO). The CCO could also be recruited from market;

(b) **Age -** Not more than 55 years;

(c) **Experience -** The CCO shall have an overall experience of at least 15 years in the banking or financial services, out of which minimum 5 years shall be in the Audit / Finance / Compliance / Legal / Risk Management functions;

(d) **Skills -** The CCO shall have good understanding of industry and risk management, knowledge of regulations, legal framework and sensitivity to supervisors' expectations;

(e) **Stature -** The CCO shall have the ability to independently exercise judgement. He should have the freedom and sufficient authority to interact with regulators/supervisors directly and ensure compliance;

(f) **Others -** No vigilance case or adverse observation from RBI, shall be pending against the candidate identified for appointment as the CCO.

(v) **Selection Process –**

(a) Selection of the candidate for the post of the CCO shall be done on the basis of a well-defined selection process and recommendations made by the senior executive level selection committee constituted by the Board for the purpose.

(b) The selection committee shall recommend the names of candidates suitable for the post of the CCO as per the rank in order of merit and Board shall take final decision in the appointment of CCO;

(vi) **Reporting Requirements –**

(a) A prior intimation to the Department of Supervision, Reserve Bank of India, Central Office, Mumbai, shall be provided before appointment, premature transfer/removal of the CCO.

(b) Such information should be supported by a detailed profile of the candidate along with the fit and proper certification by the MD & CEO of the bank, confirming that the person meets the above supervisory requirements, and detailed rationale for changes, if any;

(vii) **Reporting Line –**

(a) CCO shall have direct reporting lines to the MD & CEO and/or Board/Board Committee (ACB) of the bank.

(b) In case CCO reports to the MD & CEO, the Audit Committee of the Board shall meet CCO quarterly on one-to-one basis, without the presence of the senior management including MD & CEO.

(c) CCO shall not have any reporting relationship with the business verticals of the bank and shall not be given any business targets. Further, the performance appraisal of CCO shall be reviewed by the Board/ACB;

(viii) **Authority –**

(a) CCO and compliance function shall have the authority to communicate with any staff member and have access to all records or files that are necessary to enable him/her to carry out entrusted responsibilities in respect of compliance issues.

(b) This authority should flow from the compliance policy of the bank;

(ix) **The duties and responsibilities of the compliance function –**

These shall include at least the following activities:

1. To apprise the Board and senior management on regulations, rules and standards and any further developments.

2. To provide clarification on any compliance related issues.

3. To conduct assessment of the compliance risk (at least once a year) and to develop a risk-oriented activity plan for compliance assessment. The activity plan should be submitted to the ACB for approval and be made available to the internal audit.

4. To report promptly to the Board / ACB / MD & CEO about any major changes / observations relating to the compliance risk.

5. To periodically report on compliance failures/breaches to the Board/ACB and circulating to the concerned functional heads.

6. To monitor and periodically test compliance by performing sufficient and representative compliance testing. The results of the compliance testing should be placed to Board/ACB/MD & CEO.

7. To examine sustenance of compliance as an integral part of compliance testing and annual compliance assessment exercise.

8. To ensure compliance of Supervisory observations made by RBI and/or any other directions in both letter and spirit in a time bound and sustainable manner.

9. **Internal Audit -** The compliance function shall be subject to internal audit;

10. **Dual Hatting -** There shall not be any 'dual hatting' i.e. the CCO shall not be given any responsibility which brings elements of conflict of interest, especially the role relating to business. Roles which do not attract direct conflict of interest like role of anti-money laundering officer, etc. can be performed by the CCO in those banks where principle of proportionality in terms of bank's size, complexity, risk management strategy and structures justify that;

11. The CCO shall not be member of any committee which brings his/her role in conflict with responsibility as member of the committee, including any committee dealing with purchases / sanctions. In case the CCO is member of a committee, he/she may have only advisory role;

12. Typical core elements of the mandate of CCO must include the design and maintenance of compliance framework, training on the regulatory and conduct risks, and effective communication of compliance expectations, etc.;

13. The bank's Board of Directors shall be overall responsible for overseeing the effective management of the bank's compliance function and compliance risk. The MD & CEO shall ensure the presence of independent compliance function and adherence to the compliance policy of the bank.

The instructions contained in the circular would come into effect immediately from the date of this circular and any new appointment shall be governed by the instructions contained herein.

In respect of banks already having a CCO, they may follow the indicated processes for selection of CCO **within a period of six months** and are free to reappoint the current incumbent as the CCO if she/he meets all the requirements.

This circular supplements the guidelines issued by Reserve Bank of India on April 20, 2007 and March 04, 2015 and for any common areas of guidance, the prescription of this circular shall be followed.

The link for aforesaid Notification is mentioned below:
https://rbidocs.rbi.org.in/rdocs/notification/PDFs/NT35DA3ECE4BC2924AA1B7BFE01B3FB5B654.PDF

4. Automation of Income Recognition, Asset Classification and Provisioning processes in banks

With reference to circular DBS.CO.PPD.No.1950/11.01.005/2011-12 dated August 04, 2011, issued by RBI, in terms of which banks were advised, inter alia, to have appropriate IT system in place for identification of Non-Performing Assets (NPA) and generation of related data/returns, both for regulatory reporting and bank's own MIS requirements.

However it is observed by RBI that the processes for NPA identification, income recognition, provisioning and generation of related returns in many banks are not yet fully automated and Banks are still found to be resorting to manual identification of NPA and also over-riding the system generated asset classification by manual intervention in a routine manner.

On **September 14, 2020** RBI vide Notification No. DoS.CO.PPG./SEC.03/11.01.005/2020-21 notified that, in order to ensure the completeness and integrity of the automated Asset Classification (classification of advances/investments as NPA/NPI and their upgradation), Provisioning calculation and Income Recognition processes, Banks are advised to put in place / upgrade their systems to conform to the following guidelines latest by June 30, 2021.

Coverage:

(i) All borrower accounts, including temporary overdrafts, irrespective of size, sector or types of limits, shall be covered in the automated IT based system (System) for asset classification, upgradation, and provisioning processes. Banks' investments shall also be covered under the System.

(ii) Asset Classification Rules shall be configured in the System, in compliance with the regulatory stipulations.

(iii) Calculation of provisioning requirement shall also be System based as per pre-set rules for various categories of assets, value of security as captured in the System and any other regulatory stipulations issued from time to time on provisioning requirements.

(iv) In addition, income recognition/derecognition in case of impaired assets (NPAs/NPIs) shall be system driven and amount required to be reversed from the income account should be obtained from the System without any manual intervention.

(v) The System shall handle both down-grade and upgrade of accounts through Straight Through Process (STP) without manual intervention.

Frequency:

(vi) The System based asset classification shall be an ongoing exercise for both down-gradation and up-gradation of accounts. Banks should ensure that the asset classification status is updated as part of day end process. Banks should also be able to generate classification status report at any given point of time with actual date of classification of assets as NPAs/NPIs.

Exceptions:

(vii) Exceptions may be granted from System driven classification in certain circumstances, which are expected to be minimum and temporary. It may be emphasized that these exceptions are from automated classification and not from IRAC norms and shall be subject to the conditions as explained below.

(viii) Banks shall not resort to manual intervention / over-ride in the System based asset classification process. In any exceptional circumstance where manual intervention is required to override the System classification, it must have at least two level authorization. Such delegation of powers for authorizing the exceptions should be as per the Board approved policy of the bank (by CEO, in case of unavailability of Board) and preferably should be done from the centralized location and suitably documented. Further, any such intervention shall have appropriate audit trails and subjected to audit by concurrent and statutory auditors. Detail reports of such manual intervention shall be placed before the Audit Committee / Audit Head (banks having no Board) regularly.

(ix) Banks shall maintain logs for all exceptions i.e. manual interventions / over-rides including, but not limited to, the date and time stamp; purpose/reason; user-IDs, name and designation of those making such manual intervention and necessary account details. These logs shall 3 also be stored for a minimum period of three years and not be tampered with during the storage period. These logs shall be system generated.

System Requirements and System Audit:

(x) In case a separate application outside the CBS is used as the System for NPA/NPI identification and/or classification, the System must have access to the required data from the CBS and/or other relevant applications of the bank and the borrower/investment accounts shall be updated back into the CBS automatically, wherever applicable, through STP.

(xi) Banks shall keep the business logic and other parameters/configurations of the System updated to ensure that the System based identification, classification, provisioning and income recognition are strictly in compliance with the regulatory guidelines on an ongoing basis. There should be periodic system audit, at least once in a year, by Internal / External Auditors who are well versed with the system audit both on system parameters as also from the perspective of compliance to Income Recognition, Asset Classification and Provisioning guidelines.

General:

(xii) Banks may draw up their standard operating procedure (SOP) for System based NPA classification for usage by the operating staff.

(xiii) Baseline requirements for the NPA classification have been provided in the Annex. Banks are required to adhere to these instructions while designing and maintaining the System.

The adherence to these instructions will be examined as part of supervisory assessment of Banks and in case of non-compliance, suitable supervisory / enforcement action shall be initiated against the concerned Bank.

The link for aforesaid Notification and Annex is mentioned below:
https://rbidocs.rbi.org.in/rdocs/notification/PDFs/NT372E157BAAD1114EFCA3055B5EC99ECB18.PDF

5. Exim Bank's Government of India supported Line of Credit (LoC) to the Government of the Republic of Malawi

i) On **September 17, 2020** RBI vide General Circular A.P. (DIR Series) Circular No.01 notified that on June 12, 2020 Export-Import Bank of India (Exim Bank) has entered into an Agreement with the Government of the Republic of Malawi, for making available to the latter, Government of India supported Line of Credit (LoC) of USD 215.68 million (USD Two Hundred Fifteen Million Six Hundred Eighty Thousand only) for the purpose of financing drinking water supply schemes and other development projects in the Republic of Malawi.

Under the arrangement, financing of export of eligible goods and services from India, as defined under the agreement, would be allowed subject to their being eligible for export under the Foreign Trade Policy of the Government of India and whose purchase may be agreed to be financed by the Exim Bank under this agreement and out of the total credit by Exim Bank under the agreement, goods, works and services of the value of at least 75 per cent of the contract price shall be supplied by the seller from India, and the remaining 25 per cent of goods and services may be procured by the seller for the purpose of the eligible contract from outside India.

ii) The Agreement under the LoC is **effective from September 09, 2020**. Under the LoC, the terminal utilization period is 60 months after the scheduled completion date of the project and Shipments under the LoC shall be declared in Export Declaration Form as per instructions issued by the Reserve Bank from time to time.

iii) No agency commission is payable for export under the above LoC. However, if required, the exporter may use his own resources or utilize balances in his Exchange Earners' Foreign Currency Account for payment of commission in free foreign exchange. Authorized Dealer Category- I (AD Category- I) banks may allow such remittance after realization of full eligible value of export subject to compliance with the extant instructions for payment of agency commission.

iv) AD Category – I banks may bring the contents of this circular to the notice of their exporter constituents and advise them to obtain complete details of the LoC from the Exim Bank's office at Centre One, Floor 21, World Trade Centre Complex, Cuffe Parade, Mumbai 400 005 or from their website www.eximbankindia.in

The link for aforesaid Notification and Annex is mentioned below:
https://rbidocs.rbi.org.in/rdocs/notification/PDFs/NT38469ACA4E165D42F595A33EAC29C4B34F.PDF

6. Master Circular – Deendayal Antyodaya Yojana - National Rural Livelihoods Mission (DAY-NRLM)

On **September 18, 2020,** RBI vide Notification No. FIDD.GSSD.CO.BC. No.06/09.01.01/2020-21 has notified that Master Circular FIDD.GSSD.CO.BC.No.15/09.01.01/2019-20 dated November 26, 2019 issued by RBI on Deendayal Antyodaya Yojana - National Rural Livelihoods Mission (DAY-NRLM), has been suitably updated by incorporating the modifications in DAY-NRLM scheme and the updated scheme is placed on website www.rbi.org.in

The link for aforesaid Notification and Annex is mentioned below:
https://rbidocs.rbi.org.in/rdocs/notification/PDFs/MCNRLMA3BF3A32867E411497D82B568967FF6C.PDF

7. Assignment of Lead Bank Responsibility in new districts formed in the State of Arunachal Pradesh

On **September 25, 2020** RBI vide Notification No. FIDD.CO.LBS.BC.No.07/02.08.001/2020-21 notified that, the Government of Arunachal Pradesh vide Gazette Notification G.O. No.577 dated December 04, 2017 and G.O. No.433 dated October 05, 2018 had notified the formation of new Districts in the State of Arunachal Pradesh.

RBI further notified that it has been decided to assign the Lead Bank responsibility of the new Districts in the State of Arunachal Pradesh as under:

Sr No	Newly Carved District	Erstwhile District	Administrative units under newly created District	Lead Bank Responsibility assigned to	District Working Code allotted to new district
1	**Kamle**	Lower Subansiri Upper Subansir	Gepen Puchi-Geko Part of Daporijo Sadar Circle Dollungmukh Raga Kumporijo	**State Bank of India**	**00N**
2	**Pakke Kessang**	East Kameng	Pakke-Kessang ,Seijusa Pijiriang ,Passa Valley Dissing Passo	**State Bank of India**	**00D**
3	**Shi-Yomi**	West Siang	Mechuka , Tato Pidi , Monigong	**State Bank of India**	**00O (to be read as zero zero O)**

There is no change in the Lead Bank responsibilities of the erstwhile Districts and of other Districts in the State of Arunachal Pradesh.

The link for aforesaid Notification and Annex is mentioned below:
https://rbidocs.rbi.org.in/rdocs/notification/PDFs/NOT40B390C90B278C4259A49DD07325EE7B62.PDF

8. Implementation of Positive Pay System for Cheque Truncation System

i. On **September 25, 2020,** RBI vide Notification No. DPSS.CO.RPPD.No.309/04.07.005/2020-21, draw the attention towards the Statement on Developmental and Regulatory Policies dated August 6, 2020 wherein Reserve Bank of India (RBI) had announced introduction of Positive Pay System for Cheque Truncation System (CTS).

ii. The concept of Positive Pay, the issuer of the cheque submits electronically, through channels like SMS, mobile app, internet banking, ATM, etc., certain minimum details of that cheque (like date, name of the beneficiary / payee, amount, etc.) to the drawee bank, details of which are cross checked with the presented cheque by CTS and if any discrepancy is flagged by CTS to the drawee bank and presenting bank, who would take redressal measures.

iii. Banks shall enable it for all account holders issuing cheques for amounts of Rs. 50,000 and above. While availing of this facility is at the discretion of the account holder, banks may consider making it mandatory in case of cheques for amounts of Rs. 5,00,000 and above. Only those cheques which are compliant with above instructions will be accepted under dispute resolution mechanism at the CTS grids. Member banks may implement similar arrangements for cheques cleared / collected outside CTS as well.

iv. Positive Pay System shall be implemented from January 01, 2021. Banks are advised to create adequate awareness among their customers on features of Positive Pay System through SMS alerts, display in branches, ATMs as well as through their web-site and internet banking.

The link for aforesaid Notification and Annex is mentioned below:
https://rbidocs.rbi.org.in/rdocs/notification/PDFs/NT4198C41B6710AE4BBCB5AD754E42DA759F.PDF

9. Basel III Capital Regulations- Review of transitional arrangements

On **September 29, 2020**, RBI vide Notification No. DOR.BP.BC.No15/21.06.201/2020-21, notified that due to continuing stress on account of COVID -19 Pandemic, **it has been decided to defer the implementation of the last tranche of 0.625 per cent of the Capital Conservation Buffer (CCB) from September 30, 2020 to April 1, 2021.** Accordingly, the minimum capital conservation ratios in para 15.2.2 of Part D 'Capital Conservation Buffer Framework' of Master Circular, DBR.No.BP.BC.1/ 21.06.201/2015-16 dated July 1, 2015 on 'Basel III Capital Regulations', shall continue to apply till the CCB attains the level of 2.5 per cent on April 1, 2021.

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

The link for aforesaid Notification and Annex is mentioned below:
https://rbidocs.rbi.org.in/rdocs/notification/PDFs/CIRCULARCCB6DB27B9062D14007BD700245BE816F26.PDF

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

On **September 29, 2020**, RBI vide Notification No. DOR.BP.BC.No.16/21.04.098/2020-21, notified that due to uncertainty on account of COVID-19 Pandemic it has been decided to defer the implementation of Net Stable Funding Ratio -NSFR Guidelines by a further period of six months. **These guidelines shall now come into effect from April 1, 2021.**

The link for aforesaid Notification and Annex is mentioned below:
https://rbidocs.rbi.org.in/rdocs/notification/PDFs/NSFR2E5AB527C64D4E05BFE00F995D5A8519.PDF

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