

RBI UPDATES

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

On May 5, 2021, RBI has circulated to the Chairpersons/ CEOs of all the Regulated Entities (REs) that REs have to carry out periodic updation of KYC of existing customers. Keeping in view the current COVID-19 related restrictions in various parts of the country, REs are advised that in respect of the customer accounts where periodic updation of KYC is due and pending as on date, no restrictions on operations of such account shall be imposed till December 31, 2021, for this reason alone, unless warranted under instructions of any regulator/ enforcement agency/court of law, etc. REs are also advised to continue engaging with their customers for having their KYC updated in such cases.

The link for aforesaid Circular is mentioned below:

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12083&Mode=0>

2. Priority Sector Lending (PSL) - On-lending by Small Finance Banks (SFBs) to NBFC-MFIs

On May 5, 2021, RBI has circulated to the Chairman/ Managing Director /Chief Executive Officer Small Finance Banks that as per extant guidelines, lending by Small Finance Banks (SFBs) to Micro-Finance Institutions (MFIs) for on-lending is not reckoned for priority sector lending (PSL) classification.

In view of the fresh challenges brought on by the COVID-19 pandemic and to address the emergent liquidity position of smaller MFIs, now it has been allowed **PSL classification to the fresh credit extended by SFBs to registered NBFC-MFIs and other MFIs** (Societies, Trusts etc.) which are members of RBI recognised 'Self-Regulatory Organization' of the sector and which have a 'gross loan portfolio' of up to ₹500 crore as on 31 March 2021, for the purpose of on-lending to individuals. Bank credit as above will be permitted up to 10% of the bank's total priority sector portfolio as on 31 March, 2021.

The above dispensation shall be valid upto 31 March, 2022. However, loans thus disbursed will continue to be classified under Priority Sector till the date of repayment/maturity whichever is earlier. Further, banks will be required to adhere to the conditions prescribed for on-lending under para 21 of our Master Directions on PSL dated September 4, 2020.

The link for aforesaid Circular is mentioned below:

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12081&Mode=0>

3. Micro, Small and Medium Enterprises (MSME) Sector – Restructuring Of Advances

On **May 5, 2021** RBI vide Circular No. **DOR.STR.REC.12/21.04.048/2021-22** 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

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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:

- a) The borrower should be Micro, Small or Medium Enterprise as on March 31, 2021;
- b) 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 on the basis of exemption limit obtained as on March 31, 2021;
- c) The aggregate exposure, including non-fund-based facilities, of all lending institutions to the borrower does not exceed **25 crore** as on March 31, 2021;
- d) The borrower's account was classified as '**standard asset**' as on March 31, 2021;
- e) The borrower's account was not restructured in terms of earlier circulars issued by RBI on August 6, 2020, February 11, 2020 or January 1, 2019;
- f) The restructuring of the borrower account is invoked by September 30, 2021;
- g) The restructuring of the borrower account is implemented within 90 days from the date of invocation;
- h) If the borrower is not registered on the Udyam Registration portal, such registration shall be required to be completed before the date of implementation of the restructuring plan;
- i) Once the restructuring plan is implemented, the lending institutions shall keep provision of 10 % of the residual debt of the borrower;
- j) Lending institutions shall put in place a Board approved policy on restructuring of MSME advances at the earliest, and not later than a month from date of this circular;
- k) All other instructions specified in the earlier circular DOR.No.BP.BC/4/21.04.048/2020-21 dated August 6, 2020 shall remain applicable.

If a restructuring plan is implemented, asset classification of borrowers classified as standard may be retained as such, and if the accounts has slipped into NPA category between April 1, 2021 and date of implementation, it may be upgraded as 'standard asset', as on the date of implementation of the restructuring plan.

The link for aforesaid Circular is mentioned below:

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12086&Mode=0>

4. Resolution of Covid-19 related stress of Individuals and Small Businesses

On **May 5, 2021** RBI vide Circular No. **DOR.STR.REC.12/21.04.048/2021-22** that due to potential stress to individual borrowers and small businesses, the following set of measures are being announced which are broadly in line with the Resolution Framework - 1.0 along with suitable modifications.

A. Resolution of advances to individuals and small business

Lending institutions are permitted to offer limited window to individual borrowers and small businesses to implement resolution plan with respect to credit exposures and classify the same as

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Standard Asset upon implementation of the resolution plan. The following borrowers shall be eligible for window of resolution to be invoked by the lending institutions.

- a) Individuals who have availed off personal loans, excluding the credit facilities provided by lending institutions to their own personnel/staff.
- b) Individuals who have availed off loans and advances for business purposes and to whom the lending institutions have aggregate exposure of not more than **Rs. 25 Crore** as on March 31, 2021.
- c) Small businesses, including those engaged in retail and wholesale trade, other than those classified as MSME as on March 31, 2021, and to whom the lending institutions have aggregate exposure of not more than **Rs. 25 Crore** as on March 31, 2021.

Invocation of resolution process

- a) The lending institutions should frame policies approved by the Board at the earliest but not later than four weeks from the date of this Circular, pertaining to implementation of viable resolution plans for eligible borrowers, ensuring that the resolution under this facility is provided only to the borrowers having stress due to Covid-19. The policy should be available on the website of the lending institutions in accessible manner.
- b) The resolution process should be treated as invoked when the lending institution and the borrower agree to proceed in finalising a resolution plan. The decision on the application should be communicated in writing to the applicant by the lending institutions **within 30 days** of receipt of such application.
- c) The decision to invoke the resolution process should be taken by each lending institution having exposure to a borrower independent of invocation decisions taken by other lending institutions if they are having exposure to the same borrower.
- d) The last date for invocation of resolution is September 30, 2021.

Permitted features of resolution plans and implementation

- a) The resolution plan implemented may include rescheduling of payments, conversion of any interest accrued or to be accrued into another credit facility, revisions in working capital sanctions, granting of moratorium etc. based on an assessment of income streams of the borrower. However, compromise settlements are not permitted as resolution plan.
- b) The moratorium period granted may be for a maximum of two years, and shall come into force immediately upon implementation of the resolution plan.
- c) The 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.
- d) The resolution plan should be finalised and implemented within 90 days from the date of invocation of the resolution process.

Asset classification and provisioning

- a) If resolution plan is implemented in adherence to this circular, the asset classification of borrower account classified as Standard will be retained upon implementation, whereas the borrower

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account which has slipped into NPA between invocation and implementation will be upgraded as Standard on the date of implementation of the resolution plan.

- b) Lending institutions are permitted to sanction additional finance even before implementation of the plan in order to meet the interim liquidity requirements of the borrower. This facility of additional finance will be classified as 'Standard' till implementation of the plan.

Convergence of the norms for loans resolved previously

- a) Lending institutions where resolution plans had been implemented in terms of the Resolution Framework – 1.0 are permitted to use the window under this Circular to modify the plans **only** to increase the period of moratorium. The overall caps on moratorium and / or extension of residual tenor granted under Resolution Framework – 1.0 and this framework combined, shall be 2 years.

B. Working capital support for small businesses where resolution plans were implemented previously

- a) In respect of borrowers where resolution plan had been implemented in terms of the Resolution Framework – 1.0, lending institutions are permitted, as a one-time measure, to review the working capital sanctioned limits and / or drawing power based on a reassessment of the working capital cycle, reduction of margins, etc. without treating the same as restructuring.
- b) The measures will be contingent on the lending institutions satisfying themselves that the same is necessary due to the economic fallout from COVID-19

C. Disclosures and Credit Reporting

- a) Lending institutions publishing quarterly financial statements shall make disclosures as per the format prescribed in Format-X in their financial statements for the quarters ending September 30, 2021 and December 31, 2021.
- b) The number of borrower accounts where modifications are sanctioned and implemented and the aggregate exposure of the lending institution to such borrowers may also be disclosed on a quarterly basis, starting from the quarter ending June 30, 2021.
- c) Lending institutions that are required to publish only annual financial statements shall make the required disclosures in their annual financial statements.
- d) The credit reporting by the lending institutions in respect of borrowers where the resolution plan is implemented shall reflect “**restructured due to COVID-19**” status of the account.

The link for aforesaid Circular is mentioned below:

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12085&Mode=0>

5. Amendment to the Master Direction (MD) on KYC

On **May 10, 2021** RBI vide Circular No. **RBI/2021-22/35** has amended the Master Direction (MD) on KYC to further leverage Video Based Customer Identification Process (V-CIP) and to simplify and rationalize the process of periodic updation of KYC.

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1. The definition of Video based Customer Identification Process (V-CIP) is revised which clearly states that V-CIP is an alternate method for identifying customer.
2. Conditions for opening account in non-face-to-face mode using OTP based e-KYC has been revised stating that accounts opened using OTP based e-KYC shall not be allowed for more than a year.
3. Regulated Entity may undertake V-CIP to carry out:
 - a) Customer Due Diligence in case of individual customers, proprietor in case of proprietorship firm, Authorised Signatories and Beneficial Owners (BOs) in case of Legal Entity (LE) customers.
 - b) Conversion of existing accounts opened in non-face to face mode using Aadhaar OTP based e-KYC authentication.
 - c) Updation/ Periodic updation of KYC of eligible customers.

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

(a) V-CIP Infrastructure

- (i) The RE should comply with the RBI guidelines on minimum baseline cyber security and resilience framework.
- (ii) The RE shall ensure end-to-end encryption of data between customer device and the hosting point of the V-CIP application.
- (iii) The V-CIP infrastructure/ application should be capable of preventing connection from IP addresses outside India or from spoofed IP addresses.
- (iv) The video recording should contain live GPS co-ordinate (geo-tagging) of the customer undertaking the V-CIP and date-time stamp.
- (v) The application should have component with face liveness / spoof detection as well as face matching technology with high degree of accuracy.
- (vi) The V-CIP infrastructure should undergo necessary tests such as Vulnerability Assessment, Penetration testing and a Security Audit

(b) V-CIP Procedure

- (i) The V-CIP process will be operated only by officials of the RE specially trained for this purpose.
- (ii) If there is disruption in the V-CIP procedure, the same should be aborted and a fresh session initiated.
- (iii) Any prompting, observed at end of customer shall lead to rejection of the account opening process.
- (iv) The authorised official of the RE performing the V-CIP shall record audio-video as well as capture photograph of the customer present for identification.
- (v) If the address of the customer is different from that indicated in the OVD, suitable records of the current address shall be captured, as per the existing requirement.
- (vi) RE shall capture a clear image of PAN card displayed by the customer. The PAN details shall be verified from the database of the issuing authority including through DigiLocker.
- (vii) The authorised official of the RE shall ensure that photograph of the customer in the Aadhaar/OVD and PAN/e-PAN matches with the customer undertaking the V-CIP.

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(viii) 33All accounts opened through V-CIP shall be made operational only after being subject to concurrent audit, to ensure the integrity of process and its acceptability of the outcome.

(c) V-CIP Records and Data Management

The entire data and recordings of V-CIP shall be stored in a system located in India. REs shall ensure that the video recording is stored in a safe and secure manner and bears the date and time stamp that affords easy historical data search

4. Periodic updation should be carried out **at least once** in every **2 years** for **high risk customers**, once in every **8 years** for **medium risk customers** and once in every **10 years** for low risk customers from the date of opening of their account / last KYC updation.
5. In case of Individual Customer where there is **no change in the KYC information** or only address is changed, a self-declaration from the customer is sufficient and in case of customers whose account was opened when they were minor, fresh photographs shall be obtained on them becoming major.
6. In case of **Legal Entity, if there is no change in the KYC information**, a self-declaration will be sufficient and if there is change in the KYC information RE shall undertake the KYC process equivalent to that of a new LE customer.

The link for aforesaid Circular is mentioned below:

<https://rbidocs.rbi.org.in/rdocs/notification/PDFs/NT354BE2BCC23B344982BD5793737940EFF3.PDF>

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

On **May 12, 2021** RBI vide Circular No. **RBI/2021-22/38** informed that any sponsor contribution from a sponsor Indian party to an Alternative Investment Fund (AIF) set up in an overseas jurisdiction, including International Financial Services Centers (IFSCs) in India, as per the laws of the host jurisdiction, will be treated as Overseas Direct Investment (ODI). Accordingly, IP, can set up AIF in overseas jurisdictions, including IFSCs, under the automatic route.

The link for aforesaid Circular is mentioned below:

<https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=12092&Mode=0>

7. Indian Insurance Companies (Foreign Investment) Amendment Rules, 2021

On **May 19, 2021**, Central Government notified amendment in Indian Insurance Companies (Foreign Investment) Rules, 2015 (Original Rules, 2015), which is called as the Indian Insurance Companies (Foreign Investment) Amendment Rules, 2021 (Amendment Rules, 2021) and the amendments are as follows:

a. Rule 2- Definition

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- (i) Definition on **Control, FIPB, Indian Control of an Indian Insurance Companies and Indian Ownership** has been deleted.
- (ii) Definition of **“Resident Indian Citizen”** is substituted and now it shall have the meaning assigned to it in such policy as the Central Government may frame from time to time on foreign direct investment.
Earlier it was as assigned to it in the FDI Policy, 2014, which is now deleted.
- (iii) Definition of **“Total Foreign Investment”** is substituted and now it shall mean the sum **total of direct and indirect foreign investment** by Foreign Investors in such company, calculated in such manner as is specified in regulations made by the Authority with regard to registration of Indian Insurance Companies.
Earlier it was as calculated as per IRDA 2000 read with FDI Policy.

b. Rule 3 - Quantum of Foreign Direct Investment

No Indian Insurance Company shall allow the aggregate holdings by way of Total Foreign Investment in its equity shares by Foreign Investors, including portfolio investors, to exceed **74%** (**Earlier it was 49%**) of the paid up equity capital of such Indian Insurance Company.

c. Rule 4- Quantum of Foreign Direct Investment (Resident Indian Citizen)

In an Indian Insurance Company having foreign investment, it is mandated to have following persons as Resident Indian Citizens. **One year time is provided to comply this rule.**

- (a) majority of its directors,
- (b) majority of its Key Management Persons, and
- (c) at least one among the chairperson of its Board, its managing director and its Chief Executive Officer,

Explanation—For the purposes of this rule and rule 9, the expression “Key Management Person” shall have the same meaning as assigned to it in guidelines made by the Authority on corporate governance for insurers in India.

d. Rule 4A-Quantum of Foreign Direct Investment (General Reserve and ID)

In an Indian Insurance Company having foreign investment exceeding 49%,—

- (a) for a FY for which dividend is paid on equity shares and for which at any time the solvency margin is less than 1.2 times the control level of solvency, not less than 50% of the net profit for the FY shall be retained in **general reserve**; and
- (b) not less than 50% of its directors shall be **Independent Directors (ID)**, unless the chairperson of its Board is an ID, in which case at least one-third of its Board shall comprise of ID.”.

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e. **Rule 5- Foreign Direct Investment on Automatic Route**

The Foreign Direct Investment proposals **upto 74 %** of the total paid up equity of the Indian Insurance Company shall be allowed on the **automatic route**.

f. **Rule 8-FDI- Pricing GL as per FEMA 1999**

Any increase of foreign investment of an Indian insurance company shall be in accordance with the pricing guidelines specified by Reserve Bank of India under the **FEMA**. Now For the letters "FEMA", the words, figures and brackets "**Foreign Exchange Management Act, 1999**" is substituted.

The link for aforesaid Circular is mentioned below:

[https://www.lifeinscouncil.org/component/Indian%20Insurance%20Companies%20\(Foreign%20Investment\)%20Amendment%20Rules%202021.pdf](https://www.lifeinscouncil.org/component/Indian%20Insurance%20Companies%20(Foreign%20Investment)%20Amendment%20Rules%202021.pdf)
