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## RBI UPDATES

1. **Micro, Small and Medium Enterprises (MSME) Sector – Revision in the threshold for aggregate exposure**

On **June 04, 2021,**RBI vide Notification No. **DOR.STR.REC.21/21.04.048/2021-22** invited attention to***Resolution Framework 2.0 – Resolution of Covid-19 related stress of Micro, Small and Medium Enterprises (MSMEs)"*** dated May 5, 2021 and has revised the eligibility conditions for restructuring MSME borrowers accounts where the aggregate exposure, including non-fund based facilitiesshould not exceed **Rs.50 crore (earlier it was Rs.25 crore) as on March 31, 2021**

The link for aforesaid Notification is mentioned below:
https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12105&Mode=0

2. **Resolution of Covid-19 related stress of Individuals and Small Businesses – Revision in the threshold for aggregate exposure**

On **June 04, 2021** RBI vide Notification No. **DOR.STR.REC.20/21.04.048/2021-22**raised the loan threshold limit permitted for restructuring under the Resolution Framework 2.0. With a view to enabling a larger set of borrowers to avail of the benefits under Resolution Framework 2.0, RBI has decided to expand the coverage of borrowers under the scheme by enhancing the maximum aggregate **exposure threshold from Rs. 25 crore to Rs. 50 crore for Individuals and Small businesses**in respect of their credit exposures while classifying the same as Standard upon implementation of the resolution plan with reference to the circular DOR.STR.REC.11/21.04.048/2021-22 on"Resolution Framework – 2.0: Resolution of Covid-19 related stress of Individuals and Small Businesses" dated May 5, 2021.

The link for aforesaid Notification is mentioned below:
https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12104&Mode=0

3. **Consultative Document on Regulation of Microfinance**

On **June 14, 2021** RBI released a consultative document on Regulation of Microfinance for feedback of all stakeholders. Comments on the Consultative Document are invited from banks, NBFCs including NBFC-MFIs, industry associations and other stakeholders latest by **July 31, 2021.**

The suggestive framework will be applicable to the microfinance loans provided by all entities regulated by the Reserve Bank and is aimed at protect the microfinance borrowers from over-indebtedness.

The key proposals of the Consultative Document are as follows:

I. A common definition of microfinance loans for all regulated entities.
II. Capping the outflow on account of repayment of loan obligations of ahousehold to a percentage of the household income.
III. A Board approved policy for household income assessment.
IV. No pre-payment penalty; no requirement of collateral; and greater flexibility ofrepayment frequency for all microfinance loans.
V. Alignment of pricing guidelines for NBFC-MFIs with guidelines for NBFCs.
VI. Introduction of a standard simplified fact sheet on pricing of microfinance loansfor better transparency.
VII. Display of minimum, maximum and average interest rates charged onmicrofinance loans on the websites of regulated entities.

The link for aforesaid Notification is mentioned below:
https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=51725

## 4. Investment in Entities from FATF Non-compliant Jurisdictions

On **June 14, 2021** RBI vide circular no. **RBI/2021-22/55** invited attention to the circular DOR.CO.LIC.CC No.119/03.10.001/2020-21 dated February 12, 2021 issued by the Department of Regulation, Reserve Bank of India (RBI) **on investment in NBFCs** from The Financial Action Task Force (FATF) non-compliant jurisdictions. With a view to maintaining consistency, the corresponding regulations for investments in Payment Systems Operators (PSOs) are as follows

FATF periodically identifies jurisdictions with weak measures to combat money laundering and terrorist financing (AML / CFT) in its following publications:

i) High-Risk Jurisdictions subject to a Call for Action, and
ii) Jurisdictions under Increased Monitoring.

A jurisdiction whose name does not appear in these two lists is referred to as a FATF compliant jurisdiction

Investments in Payment Systems Operators (PSOs) from FATF non-compliant jurisdictions shall not be treated at par with that from compliant jurisdictions.Investors in existing PSOs holding their investments prior to the classification of the source or intermediate jurisdiction/s as FATF non-compliant, may continue with the investments or bring in additional investments as per extant regulations so as to support continuity of business in India.

New investors from or through non-compliant FATF jurisdictions, whether in existing PSOs or in entities seeking authorization as PSOs, are not permitted to acquire, directly or indirectly, **'significant influence' as defined in the applicable accounting standards** in the concerned PSO. In other words, fresh investments (directly or indirectly) from such jurisdiction, in aggregate should account for less than 20% of voting power ( including potential voting power) in PSO.

The link for aforesaid Circular is mentioned below:
https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12114&Mode=0

## 5. Declaration of Dividend by NBFC

On **June 24, 2021** RBI vide circular no. **RBI/2021-22/59** issued guidelines for distribution of dividend by NBFCs .The new guideline is framed in order to infuse greater transparency and uniformity in practice.

These guidelines shall be applicable to all NBFCs regulated by RBI which includes Housing Finance Companies (HFCs), Core Investment Companies (CICs), Government NBFCs, MortgageGuarantee Companies, Standalone Primary Dealers (SPDs), NBFC-Peer to Peer Lending Platform (NBFC-P2P) and NBFC- Account Aggregator (NBFC-AA)

(a) Applicable NBFCs as defined in Paragraph 2(2) of Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016; and

(b) Applicable NBFCs as defined in Paragraph 2(2) of Non-Banking Financial Company –Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016

The Board of Directors shall, while considering the proposals for dividend, take into account the following aspects:

(a) Supervisory findings of the Reserve Bank (National Housing Bank (NHB) for HFCs)on divergence in classification and provisioning for Non-Performing Assets (NPAs).

(b) Qualifications in the Auditors' Report to the financial statements; and

(c) Long term growth plans of the NBFC.

The Board shall ensure that the total dividend proposed for the financial year does not exceed the ceilings specified in these guidelines.

NBFCs shall comply with the following minimum prudential requirements to be **eligible** to declare dividend:

1. **Capital Adequacy:**(a) NBFC need to meet the applicable regulatory capital requirement for each of the last 3 financial years including the financial year for which the dividend is proposed.(b) Standalone Primary Dealers (SPDs) should maintain a minimum CRAR of 20 per cent for the financial year (all the four quarters) for which dividend is proposed.

2. **Net NPA:** The net NPA ratio shall be less than 6% in each of the last 3 years, including at the close of the financial year for which dividend is proposed to be declared.

3. **Other criteria** :(a) NBFCs shall comply with the provisions of Section 45 IC of the Reserve Bank of India Act, 1934. HFCs shall comply with the provisions of Section 29 C of The National Housing Bank Act, 1987.(b) NBFCs shall be compliant with the prevailing regulations/ guidelines issued by the Reserve Bank. The Reserve Bank or the NHB (for HFCs) shall not have placed any explicit restrictions on declaration of dividend.

The proposed dividend must include both dividend on equity shares and compulsorily convertible preference shares eligible for inclusion in Tier 1 Capital. In case the net profit for the relevant period indicates an overstatement of net profit, the same shall be reduced from net profits while determining the Dividend Payout Ratio.

No dividend ceiling is prescribed for NBFCs that do not accept deposits. For core investment company and standalone primary dealers, the RBI has prescribed a ceiling of 60 percent. For other NBFCs, the ceiling is prescribed at 50 percent.

An NBFC (other than Standalone Primary Dealer), which does not meet the applicable prudential requirement prescribed for each of the last 3 financial years, will be eligible to declare dividend, subject to a cap of 10 percent on the dividend payout ratio and provided NBFC meets the applicable capital adequacy requirement in the financial year for which it proposes to pay dividend; and has net NPA of less than 4 per cent as at the close of the financial year.

In case of Standalone Primary Dealer(SPDs) which have a CRAR at or above the regulatory minimum of 15% during each of the quarters of the previous year, but lower than 20% in any of those quarters, the dividend payout ratio shall not exceed 33.3 %.

Reporting system

NBFC-D, NBFC-ND-SI, HFC & CIC declaring dividend shall report details of dividenddeclared during the financial year as per the format prescribed in Annex 2 of the Circular. The Reportshall be furnished within a fortnight after declaration of dividend to the Regional Office ofthe Department of Supervision of the Reserve Bank/ Department of Supervision of NHB,under whose jurisdiction it is registered.

The link for aforesaid Circular is mentioned below:
https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12118&Mode=0

## 6. 2020-21 Survey on Computer Software and Information Technology Enabled Services (ITES) Exports

On **June 24, 2021** vide press release no. **2021-2022/419**RBIlaunched the 2020-21 round of its Annual Survey on Computer Software and Information Technology Enabled Services (ITES) Exports.

The annual survey collects data on various aspects of Computer Services Exports as well as Exports of Information Technology Enabled Services (ITES) and Business Process Outsourcing (BPO). The survey results are released in the public domain and are used for compilation of balance of payments (BoP) statistics and other uses.

The survey schedule for the 2020-21 rounds is required to be filled in by all software and ITES/BPO exporting companies via email by **July 31, 2021**.

The link for aforesaid Press Release is mentioned below:
https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=51784

## 7. Survey on Foreign Liabilities and Assets of Mutual Fund and Asset Management Companies': 2020-2021

On **June 24, 2021** vide press release no **2021-2022/420**RBI has launched the 2020-21 round of its annual survey on 'Foreign Liabilities and Assets of Mutual Funds and Asset Management Companies'.

The survey collects information from Mutual Fund companies and Asset Management Companies on their external financial liabilities and assets as at end-March of the latest financial year. Consolidated results of the survey are released in the public domain besides being used for compilation of India's external sector statistics.

Asset Management companies (AMCs) are required to submit the annual return on Foreign Liabilities and Assets (FLA) online through the web-based portal(https://flair.rbi.org.in) by July 31, 2021.

In addition, Mutual Fund companies are required to fill the survey schedule(Schedule-4), which is available on the RBI website (www.rbi.org.in /Forms /Survey) and send via e-mail by July 31, 2021.

The link for aforesaid Press Release is mentioned below:
https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=51785

## 8. New Definition of Micro, Small and Medium Enterprises (MSME) and Validity of Udyog Aadhar

On **June 25, 2021** RBI vide circular no. **RBI/2021-2022/63 RBI** requested to refer to the circular FIDD.MSME & NFS.BC.No.4/06.02.31/2020-21 dated August 21, 2020 on 'New Definition of Micro, Small and Medium Enterprises –clarifications'.

Government of India, vide their Gazette Notification S.O.2347(E) dated June 16, 2021, has notified amendments in paragraph (7) sub-paragraph (3)in the notification of Government of India, Ministry of Micro, Small and Medium Enterprises number S.O. 2119 (E), dated June 26, 2020, published in the Gazette of India.

In view of the above amendment, paragraph 2.2 (i) of RBI circular dated August 21, 2020stands modified as under:

**The existing Entrepreneurs Memorandum (EM) Part II and Udyog Aadhaar Memorandum (UAM) of the MSMEs obtained till June 30, 2020 shall remain valid till December 31, 2021.**

The link for aforesaid Circular is mentioned below:
https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12122&Mode=0

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