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ABOUT INSTITUTE

CORPORATE TRAINING & DEV. INSTITUTE (CTDI)

Established in 1996 by a team of Professionals and Bankers headed by **Founder Director Dr. G.S.Bhalla,** for imparting basic training in functional areas of Banking, Insurance, Finance, Foreign Exchange, HRD & General Management and identifying potential entrepreneurs for developing their enterprise building skills and facilitating development ideas into bankable projects.

The core team besides **Dr. G.S.Bhalla (Director)** consists of **Mr. Harsimran S. Bhalla (Director), Mr. K.G.S. Nagpal and Mr. H.S. Bedi.** The core team is supported by specialised faculty from Banking & Insurance sector & also visiting faculty from different Banks, Industries & Management Institutes.

CAREER ADVANCEMENT PROGRAMMES

The Institute conducts Career Advancement Programmes on regular basis for Staff members of public sector banks. It has already conducted structured training modules for staff members of:

- State Bank of India & its Associate Banks (SBoP, SBBJ, SBOH, SBOT).
- Public Sector Banks – PNB, OBC, UBI, BOI, P SB, UCO Bank, Bank of Baroda, Indian Overseas Bank, Allahabad Bank, Vijaya Bank, Syndicate Bank, Central Bank and Andhra Bank, Canara Bank, RRBs.
- Classes conducted in Chandigarh, Delhi, Hyderabad, Trivandrum, Patna, Ahmedabad, Mumbai .....

CAIIB / JAIIB CLASSES

CTDI conducts regular Classroom programmes on specific request CAIIB/JAIIB in Locational centres such as Chandigarh, Delhi, Hyderabad & Patna.

SPONSORED PROGRAMMES

The Institute has undertaken programmes sponsored by:

- Bank of Punjab **(BOP)**, Oriental Bank of Commerce **(OBC)**, Union Bank of India **(UBI)**, Allahabad Bank **(AB)**, UCO Bank, IDBI Bank.
- National Bank for Agriculture & Rural Development **(NABARD)**
- Small Industries Development Bank of India **(SIDBI)**
- IDBI Co-sponsored by **ICICI & IFCI.**
- District Industries Centre **(DIC)**
- Directorate General Re-settlement **(DGR)**, Ministry of Defence.
- **ICWA, IFFCO, PSIEC,** Crompton & Greaves, Apparel Exporters Association of Ludhiana **(APPEAL)** set up with support of **UNIDO**, Department of Posts
- **HDFC** Standard Life Insurance Co. Ltd.
- **Allianz Bajaj** Life Insurance Co. Ltd. & **Tata AIG** Life Insurance Co. Ltd,
- **DRAs training** sponsored by HDFC Bank, ABN Amro Bank, Standard Chartered Bank, Axis Bank.

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MONETARY POLICY STATEMENT, 2023-24

(RESOLUTION OF THE MPC : AUGUST 8-10, 2023)

The Reserve Bank of India Governor Shaktikanta Das announced the third **bi-monthly** monetary policy for FY24 on 10th August 2023. The three-day meeting of the **six members** MPC statement of RBI was in line with market expectations on rates, stance and tone, with retention of rates. RBI has struck a fine balance between the two - by retaining policy interest rate and 'withdrawal of accommodation' stance and stating that it is ready to look through the inflation increase 'for some time', but also expressed the readiness to act in case inflationary pressures generalise.

The decisions of MPC are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of **4 per cent within a band of +/- 2 per cent,** while supporting growth. 4% ± 2%

TARGETS:

GDP 6.5%

- **GDP OUTLOOK:** The real GDP growth for 2023-24 is projected at **6.5 per cent** with Q1 at 8.0 per cent; Q2 at 6.5 per cent; Q3 at 6.0 per cent; and Q4 at 5.7 per cent, with risks broadly balanced. Real GDP growth for Q1:2024-25 is projected at 6.6 per cent.
- **INFLATION:** CPI inflation is projected at **5.4 per cent** for 2023-24, with Q2 at 6.2 per cent, Q3 at 5.7 per cent and Q4 at 5.2 per cent, with risks evenly balanced. CPI inflation for Q1:2024-25 is projected at 5.2 per cent.

MONETARY & LIQUIDITY AGGREGATES

On the basis of an assessment of the current and evolving macroeconomic situation, the MPC at its meeting on August 10, 2023 decided as following:

- 6.50 **REPO RATE:** The policy Repo rate under the Liquidity Adjustment Facility (LAF) kept unchanged at **6.50 per cent.**
- 6.25 **STANDING DEPOSIT FACILITY (SDF):** The standing deposit facility rate also kept unchanged at **6.25 per cent.**
- 6.75 **MARGINAL STANDING FACILITY (MSF):** The MSF rate (an emergency funding window) with a spread of 25 bps above the policy rate retained at **6.75 per cent.**
- 6.75 **BANK RATE:** The MSF rate and the Bank Rate are calibrated to 25 bps above the repo rate. The Bank Rate thus retained at **6.75 per cent.**
- 4.5% **CASH RESERVE RATIO (CRR):** CRR of scheduled banks retained at **4.50 percent** of their Net Demand and Time Liabilities (NDTL). Further, the RBI has directed that all Scheduled Commercial Banks / RRB's / all Scheduled Primary (Urban) Co-operative Banks / all Scheduled State Co-operative Banks, shall maintain with the RBI, with effect from the fortnight beginning August 12, 2023:

a) an additional average daily balance over and above the average daily balance required to be maintained under sub-section (1) of Section 42; and

b) that the amount of such additional average daily balance shall not be less than 10 per cent of the increase in net demand and time liabilities between May 19, 2023 and July 28, 2023.

- 18% **STATUTORY LIQUIDITY RATIO (SLR):** The SLR of scheduled commercial banks retained at **18 per cent** of NDTL.
- **FIXED RATE REVERSE REPO (FRRR):** The fixed rate reverse repo (FRRR) rate has been kept as part of the RBI's toolkit and its operation will be at the discretion of the RBI.

1) REGULATORY FRAMEWORK FOR FINANCIAL BENCHMARK ADMINISTRATORS:

➢ In June 2019, RBI issued a regulatory framework on administration of 'significant benchmarks' by benchmark administrators in the financial markets regulated by the Reserve Bank such as the USD/INR Reference Rate, Overnight MIBOR, and valuations of government securities administered by the **Financial Benchmarks India Private Limited (FBIL)**.

➢ Considering the evolution of the domestic financial markets since then and global best practices, the regulations for financial benchmarks have been reviewed. RBI has decided to put in place a comprehensive, risk-based framework covering administration of all benchmarks related to foreign exchange, interest rates, money markets and government securities such as benchmarks on certificate of deposits (CDs) rates, repo rates, and FX Options Volatility Matrix as well as other benchmarks on government securities.

2) INFRASTRUCTURE DEBT FUNDS (IDF-NBFCS):

➢ Infrastructure Debt Fund was created as a separate category of NBFCs in 2011. To enable the IDFs to play a greater role in financing of the infrastructure sector and to move towards the regulatory objective of harmonisation of regulations applicable to various categories of NBFCs, a review of the extant regulatory framework for IDFs has been undertaken in consultation with the Govt. The revised framework envisages **(i)** withdrawal of the requirement of a sponsor for the IDFs; **(ii)** permission to finance Toll Operate Transfer projects (ToT) as direct lenders, **(iii)** access to ECBs; and **(iv)** making tri-partite agreement optional for PPP projects.

3) TRANSPARENCY IN INTEREST RATE RESET OF EMI BASED FLOATING INTEREST LOANS:

➢ The supervisory reviews undertaken by the RBI from members of public have revealed several instances of unreasonable elongation of tenor of floating rate loans by lenders without proper consent and communication to the borrowers. To address the issue, RBI has proposed to put in place a proper conduct framework to be implemented by all REs to address the issues faced by the borrowers.

➢ The framework envisages that lenders should clearly communicate with the borrowers for resetting the tenor and/or EMI, provide options of switching to fixed rate loans or foreclosure of loans, transparent disclosure of various charges incidental to the exercise of these options, and proper communication of key information to the borrowers.

4) CONVERSATIONAL PAYMENTS IN UPI :

➢ As Artificial Intelligence (AI) is becoming increasingly integrated into the digital economy, conversational instructions hold immense potential in enhancing ease of use, and consequently reach, of the UPI system. RBI has therefore, proposed to launch an innovative payment mode viz., "Conversational Payments" on UPI, that will enable users to engage in a conversation with an AI-powered system to initiate and complete transactions in a safe and secure environment. This channel will be made available in both smartphones and feature phones-based UPI channels, thereby helping in the deepening of digital penetration in the country. The facility will, initially, be available in Hindi and English and will subsequently be made available in more Indian languages.

5) OFFLINE PAYMENTS IN UPI:

UPI-Lite

NFC

➢ To increase the speed of small value transactions on UPI, an on-device wallet called "UPI-Lite" was launched in Sept. 2022 to optimise processing resources for banks, thereby reducing transaction failures. The product has gained traction and currently processes more than ten million transactions a month. To promote the use of UPI-Lite, RBI has proposed to facilitate offline transaction using Near Field Communication (NFC) technology. This feature will not only enable retail digital payments in situations where internet / telecom connectivity is weak or not available, it will also ensure speed, with minimal transaction declines.

6) ENHANCING LIMITS FOR SMALL VALUE DIGITAL PAYMENTS:

➢ A limit of Rs.200 per transaction and an overall limit of Rs.2000 per payment instrument has been prescribed by the RBI for small value digital payments in offline mode including for National Common Mobility Card (NCMC) and UPI Lite. By removing the need for two-factor authentication for small value transactions, these channels enable faster, reliable, and contactless mode of payments for everyday small value payments, transit payments etc. Since then, there have been demands for enhancing these limits.

➢ To encourage wider adoption of this mode of payments and bring in more use cases into this mode, RBI has proposed to increase the per transaction limit to Rs.500. The overall limit is, however, retained at Rs.2000 to contain the risks associated with relaxation of two-factor authentication.

7) PUBLIC TECH PLATFORM FOR FRICTIONLESS CREDIT:

➢ For digital credit delivery, the data required for credit appraisal are available with different entities like Central and State governments, account aggregators, banks, credit information companies, digital identity authorities, etc. However, they are in separate systems, creating hindrance in frictionless and timely delivery of rule-based lending.

KCC up to 1.6 lakh

➢ To address this situation, a pilot project for digitalisation of Kisan Credit Card (KCC) loans of less than Rs.1.60 lakh was started in Sept. 2022. The pilot tested end-to-end digitalisation of the lending process in a paperless and hassle-free manner. The KCC pilot is currently underway in select districts of Madhya Pradesh, Tamil Nadu, Karnataka, UP, Maharashtra and the initial results are encouraging. The pilot also enables doorstep disbursement of loans in assisted or self-service mode without any paperwork. A similar pilot is being carried out for dairy loans based on milk pouring data with Amul in Gujarat.

➢ Based on the learnings from the above pilots and expand the scope to all types of digital loans, a digital Public Tech Platform is being developed by the Reserve Bank Innovation Hub (RBIH). The Platform would enable delivery of frictionless credit by facilitating seamless flow of required digital information to lenders. The end-to-end digital platform will have an open architecture, open Application Programming Interfaces (APIs) and standards, to which all financial sector players can connect seamlessly in a 'plug and play' model.

➢ The Platform is intended to be rolled out as a pilot project in a calibrated fashion, both in terms of access to information providers and use cases. It shall bring about efficiency in the lending process in terms of reduction of costs, quicker disbursement, and scalability.

8) ANTARDRISHTI:

➢ The RBI has launched a Financial Inclusion Dashboard, named, अंतर्दृष्टि (ANTARDRISHTI) to provide the required insight to assess and monitor the progress of financial inclusion by capturing relevant parameters. This facility will also enable to gauge the extent of financial exclusion at granular levels across the country so that such areas can be addressed.

➢ To measure the extent of financial inclusion, RBI had constructed the Financial Inclusion (FI) Index in 2021, based on three dimensions of financial inclusion, viz., 'Access', 'Usage' and 'Quality'.

9) EXPANDING THE SCOPE OF TReDS:

➢ TReDs is an electronic platform for financing trade receivables. It facilitates the discounting of both invoices as well as bills of exchange. The three direct participants in the system are the SME (sellers), Corporate Entities (buyers) and the Financiers.

➢ TReDS provides a level – playing field where all the participants work together for facilitating accepting, discounting, and settling invoices. As per the guidelines of the RBI, only micro, small, and medium enterprises (MSMEs) can participate as sellers while NSFCs, banks and factoring companies are financiers. The guidelines allow financing/ discounting of MSME receivables on "without recourse" basis by permitted financiers.

C2FO

➢ Recently, C2FO Factoring Solutions Private Limited, has received in – Principal approval from the RBI to set up a TReDS platform in India.

Currently, three CO's registered as a TRsDs platform are:

a) Receivables Exchange of India Ltd (RXIL).

b) A. TReDS Ltd (Known as Invoicemart)

c) M1 X change

RBI has made the following enhancements to the TReDS guidelines:

A) Facilitate Insurance for Transactions: Financiers place their bids on the TReDS platforms keeping in view the credit rating of buyers. They are generally not inclined to bid for payables of low rated buyers. To overcome this, insurance facility is being permitted for TReDS transactions, which would aid financiers to hedge default risks, subject to the following:

a) Apart from MSME sellers, buyers and financiers, insurance companies are permitted to participate as 'fourth participant' in TReDS.

b) In their business / operational rules, the TReDS platform operators may specify the stage at which insurance facility can be availed.

c) Premium for insurance shall not be levied on the MSME seller.

d) Collection of premium and related activities could be enabled through National Automated Clearing House (NACH) system used for settlement of TReDS transactions.

Based on consent received from financiers and insurance companies, TReDS platforms could facilitate automated processing of insurance claims and specify timelines for their settlement through the NACH system.

➢ As of now, the credit insurance shall not be treated as a Credit Risk Mitigant (CRM) to avail any prudential benefits.

B) Expand the Pool of Financiers: TReDS transactions fall under the ambit of 'factoring business' and banks, NBFC-Factors and other financial institutions (as permitted by RBI) can presently participate as financiers in TReDS.

Factoring Regulation Act, 2011

The Factoring Regulation Act, 2011 (FRA) allows certain other entities / institutions to undertake factoring transactions. Accordingly, all institutions allowed to undertake factoring business under FRA and the regulations made thereunder, are now permitted to participate as financiers in TReDS.

C) **Enable Secondary market for Factoring Units (FUs):** TReDS platform operators may, at their discretion, enable a secondary market for transfer of FUs within the same TReDS platform.

D) **Settlement of FUs not discounted/ financed:** To overcome the inconvenience caused to MSME sellers and buyers as well as for better reconciliation, TReDS platform operators shall now be permitted to undertake settlement of all FUs – financed / discounted or otherwise, using the NACH mechanism used for TReDS. Timeline for funds settlement shall be subject to the provisions of TReDS guidelines/MSME Act.

E) **Display of Bids:** To make the process more transparent, the platforms may display details of bids placed for an FU to other bidders; name of the bidder shall, however, not be revealed.

10) ENHANCED ACCESS AND SERVICE EXCELLENCE 5.0:

EASE 5.0

The Finance and Corporate Affairs Minister launched the fifth edition of Enhanced Access and Service Excellence-EASE 5.0, which spells out the common reforms agenda for public sector banks (PSBs) under the EASENext program.

EASE REFORMS AGENDA:

- It was launched in Jan. 2018 jointly by the Govt. and PSBs.
- It was commissioned through Indian Banks' Association and authored by Boston Consulting Group.
- EASE Agenda is aimed at institutionalizing CLEAN and SMART banking.
- **EASE Reforms Index:** The index measures performance of each PSB on 120+ objective metrics.
- The Index follows a fully transparent scoring methodology, which enables banks to identify their strengths as well as areas for improvement.

EASENext is well-positioned to channel reforms with specific focus on customer centric initiatives.

EASENext would comprise 2 major initiatives:

a) EASE 5.0 (common PSB reforms agenda);
b) Bank specific strategic 3-year roadmap.

EASE 5.0 will have Five Themes:

THEME-1: Digitally-enabled customer offerings;
THEME-2: Big data and analytics;
THEME-3: Modern Technology capabilities;
THEME-4: Collaborative & Development-focused banking;
THEME-5: Employee development and Governance.

11)CENTRALISED INFORMATION MANAGEMENT SYSTEM (CIMS):

- RBI has embarked on a major change in its information management framework for handling the massive data flow, aggregation, analysis, public dissemination and data governance following the launch of its CIMS.
- This system uses state-of-the-art technology to manage big data and will serve as a platform for power users to carry out data mining, text mining, visual analytics and advanced statistical analysis connecting data from multiple domains, such as, financial, external, fiscal, corporate and real sectors as well as prices.

100 day's 100 Pay's

12) RBI LAUNCHES '100 DAYS 100 PAYS' CAMPAIGN:

➢ RBI has announced the '100 Days 100 Pays' campaign to retrieve and return unclaimed deposits from all banks across India. The campaign targets the top 100 unclaimed deposits in every district within 100 days starting June 1, 2023. Unclaimed deposits include dormant savings and current accounts inactive for ten years and term deposits with no claims within ten years of maturity.

DEAF

➢ To tackle the Unclaimed deposits issue, banks transfer such unclaimed amounts to the "Depositor Education and Awareness" (DEA) Fund, managed by the RBI. Additionally, the RBI has recently announced the establishment of a centralized web portal to enable the public to search for unclaimed deposits across multiple banks.

➢ Banks already display lists of unclaimed deposits on their websites. However, the RBI aims to enhance the accessibility of this information to depositors and beneficiaries by developing a web portal that allows users to search for potential unclaimed deposits across various banks through the utilization of artificial intelligence tools.

13) G20 TechSprint 2023:

➢ Under India's G20 Presidency, the RBI and the BIS Innovation Hub (BISIH) of the Bank for International Settlements have jointly launched the fourth edition of the G20 TechSprint, a global technology competition to promote innovative solutions aimed at improving cross-border payments.

➢ When payments across borders become efficient, economic linkages, economic cooperation and economic activities across borders become easier, effective and efficient. Payments should be able to flow seamlessly across borders and between payment systems to promote competition while preserving financial integrity.

31-Dec-2023

14) DEADLINE TO RENEW LOCKER AGREEMENTS EXTENDED:

➢ RBI has extended the deadline for banks to finish the process of renewal of agreements for the existing safe deposit locker holders / Safe Custody Article Facility in a phased manner by Dec. 31, 2023 - with intermediate milestones of 50% by June 30, 2023, and 75% by Sept. 30, 2023.

➢ The regulator has also asked the banks to take steps to make it easier for their customers to execute new or additional stamped agreements with them by setting up stamp papers, franking, electronic execution of agreements, e-stamping, etc. They should also give the customer a copy of the executed agreements.

Central Payments Fraud Information Registry ↓ DAKSH

15) CPFIR - MIGRATION OF REPORTING TO DAKSH:

➢ RBI had operationalised the **Central Payments Fraud Information Registry (CPFIR)** with reporting of payment frauds by scheduled commercial banks and non-bank Prepaid Payment Instrument (PPI) issuers.

➢ To streamline reporting, enhance efficiency and automate the payments fraud management process, the fraud reporting module is being migrated to **DAKSH – Reserve Bank's Advanced Supervisory Monitoring System.** The migration will be effective from **Jan. 01, 2023**, i.e., entities shall commence reporting of payment frauds in DAKSH from this date. In addition to the existing bulk upload facility to report payment frauds, DAKSH provides additional functionalities, viz. maker-checker facility, online screen-based reporting, option for requesting additional information, facility to issue alerts / advisories, generation of dashboards and reports, etc.

Reporting Guidelines:

a) All RBI authorised Payment System Operators (PSOs) / providers and payment system participants operating in India are required to report all payment frauds, including attempted incidents, irrespective of value, either reported by their customers or detected by the entities themselves. This reporting was earlier facilitated through Electronic Data Submission Portal (EDSP) and is being migrated to DAKSH.

b) The responsibility to submit the reported payment fraud transactions shall be of the issuer bank / PPI issuer / credit card issuing NBFCs, whose issued payment instrument has been used in the fraud.

Entities are required to validate the payment fraud information reported by the customer in their own systems to ensure the authenticity and completeness, before reporting the same to RBI on individual transaction basis.

c) Entities are required to report payment frauds (domestic and international) to CPFIR as per the specified timelines (currently within 7 calendar days from date of reporting by customer / date of detection by the entity).

Entities may continue to report payment frauds as per the extant reporting format using the bulk upload facility in DAKSH or report individual payment frauds online using the screen-based facility under the Incident Module of the DAKSH platform.

d) After go-live of payment fraud reporting in DAKSH effective January 01, 2023, entities shall not be able to report any payment frauds in EDSP. Entities may, however, continue to update and close payment frauds that were reported in EDSP until December 31, 2022.

16) REVIEW OF SLR HOLDINGS IN HTM CATEGORY:

➢ At present, Banks have been granted a special dispensation of enhanced Held to Maturity (HTM) limit of 22 per cent of Net Demand and Time Liabilities (NDTL), for Statutory Liquidity Ratio (SLR) eligible securities acquired between Sept. 1, 2020 and March 31, 2022, until March 31, 2023.

➢ **On a review, RBI had further enhanced** the existing HTM limit of 22 per cent of NDTL to 23 per cent of NDTL and allow banks to include securities acquired between April 1, 2022 and March 31, 2023 under the enhanced limit of 23 per cent.

➢ The enhanced HTM limit of 23% was to be restored to 19.5% in a phased manner, beginning from the quarter ending June 30, 2023, i.e. the excess SLR securities acquired by banks during the period Sept. 1, 2020 to March 31, 2023. 19.5%

extended to 31 March 2024

➢ With a view to enable banks to better manage their investment portfolios, RBI on 7th Dec decided to extend the dispensation of enhanced HTM limit of 23 per cent up to March 31, 2024 and allow banks to include securities acquired between September 1, 2020 and March 31, 2024 in the enhanced HTM limit. The HTM limits would be restored from 23 per cent to 19.5 per cent in a phased manner starting from the quarter ending June 30, 2024.

17) LEVY OF CHARGES ON FOREX PREPAID CARDS/STORE VALUE CARDS/TRAVEL CARDS, ETC:

➢ RBI observed that a few Authroised Persons are levying certain fees/charges, which are payable in India on such instruments, in foreign currency. RBI has advised that fees/charges payable in India have to be denominated and settled in Rupees only.

18) DIGITAL PAYMENTS (DigiSaathi):

➢ To address the queries of digital payment users, the Reserve Bank on March 8, 2022, launched two key initiatives namely:

a) UPI123Pay – Option to make Unified Payments Interface (UPI) payments for feature phone users, and

b) DigiSaathi - a 24x7 Helpline. 'DigiSaathi' – provides a channel to obtain help on the entire gamut of digital payments. Automated responses on information related to digital payment products and services are available in Hindi and English through multiple options like – toll-free number; a short code; website and chatbots.

19) BBPS - ADDITION OF BILLER CATEGORY:

➢ Bharat Bill Payment System (BBPS) is as an interoperable platform for repetitive bill payments. It was conceptualised to offer interoperable and accessible bill payment services to customers through a network of agents with multiple payment modes and instant confirmation of payment.

➢ Pilot phase of BBPS was launched on August 31, 2016. The system offers 'anytime anywhere' bill payment service to customers using online payments as well as through a network of physical agent locations.

➢ The system provided standardised bill payment experience, centralised customer grievance redressal mechanism, prescribed customer convenience fee and ensured availability of a bouquet of anytime, anywhere digital payment options.

➢ The Reserve Bank on June 14, 2021 permitted 'mobile prepaid recharges' as a biller category in Bharat Bill Payment System (BBPS), on a voluntary basis. BBPS earlier covered bills of five categories, such as Direct to Home (DTH), electricity, gas, telecom and water.

➢ The scope and coverage of BBPS was expanded to include all categories of billers which raise recurring bills (except mobile prepaid recharges) as eligible participants, on a voluntary basis.

20) ACCEPTANCE OF GREEN DEPOSITS – FRAMEWORK:

➢ **"Green deposit"** means an interest-bearing deposit, received by the regulated entities for a fixed period and the proceeds of which are earmarked for being allocated towards green finance;

➢ **"Green finance"** means lending to and/or investing in the activities / projects meeting the requirements that contributes to climate risk mitigation, climate adaptation and resilience, and other climate-related or environmental objectives - including biodiversity management and nature-based solutions.

➢ **"Greenwashing"** means the practice of marketing products / services as green, when in fact they do not meet requirements to be defined as green activities / projects.

Denomination, Interest Rates & Tenor of Deposits:

➢ Financial institutions shall issue green deposits as cumulative / noncumulative deposits. On maturity, the green deposits would be renewed or withdrawn at the option of the depositor.

➢ The green deposits shall be **denominated in Indian Rupees only.** The tenor, size, interest rate and other terms and conditions will be same as applicable to regular deposits.

➢ FIs should have a comprehensive Board-approved policy on green deposits accepted by them.

Financing Framework:

➢ **FIs shall put in place a Board approved Financing Framework (FF) for effective allocation of green deposits.**

a) The eligible green activities/projects that could be financed out of proceeds raised through the green deposits.

b) The process for project evaluation and selection by the FIs (i.e., climate related or environmental objectives) including identifying the projects fit for lending/investing within the eligible categories, monitoring and validating the sustainability information provided by the borrower.

c) Allocation of proceeds of green deposits and its reporting, third party verification / assurance of the allocation of proceeds and the impact assessment.

d) Particulars of the temporary allocation (which would only be in liquid instruments up to a maximum original tenure of one year which shall be specified under the Financing Framework) of green deposit proceeds, pending their allocation to the eligible activities/projects.

➢ **Use Of Proceeds:** The allocation of proceeds raised from green deposits shall be based on the official Indian green taxonomy. Pending finalization of the taxonomy, as an interim measure FIs shall be required to allocate the proceeds raised through green deposits towards the following list of green projects which encourage energy efficiency in resource utilization, reduce carbon emissions and greenhouse gases, promote climate resilience and/or adaptation and value and improve natural ecosystems and biodiversity.

Exclusions: a) Projects involving new or existing extraction, production and distribution of fossil fuels, including improvements and upgrades; or where the core energy source is fossil-fuel based.

b) Nuclear power generation.

c) Direct waste incineration.

d) Alcohol, weapons, tobacco, gaming, or palm oil industries.

e) Renewable energy projects generating energy from biomass using feedstock originating from protected areas.

f) Landfill projects; **g)** Hydropower plants larger than 25 MW.

Third-Party Verification / Assurance and Impact Assessment: The allocation of funds raised through green deposits by Fis during a financial year, shall be subject to an independent Third-Party Verification / Assurance which shall be done on an annual basis.

Reporting and Disclosures: A review report shall be placed by the FIs before its Board of Directors within 3 months of the end of the financial year - amount raised under green deposits during the previous financial year.

21) CVC ASKS BANKS, GOVT DEPTT's TO SEND FACTUAL REPORT ON CORRUPTION:

➢ Chief Vigilance Officers (CVOs) are required to submit the factual report to the commission, on the basis of scrutiny of relevant records / documents only, within a period of 30 days of the receipt of the complaint / communication from the commission.

➢ The CVOs act as a distant arm of the commission to check corruption. 'While forwarding the factual report, the CVOs should also give their recommendations/views in clear terms,' it said in the order issued to all CVOs of central government departments, public sector banks, insurance companies, and central public sector undertakings, among others.

22) TOKENISATION:

➢ In an effort to improve safety and security of card transactions, Reserve Bank of India had permitted card networks for tokenisation in card transactions for a specific use case.

➢ Tokenisation refers to replacement of actual card details with an unique alternate code called the 'token', which shall be unique for a combination of card, token requestor and device referred 'identified device'.

➢ On a review of the framework and keeping in view stakeholder feedback, RBI has decided to extend the scope of tokenisation to include consumer devices – laptops, desktops, wearables (wrist watches, bands, etc.), Internet of Things (IoT) devices, etc.

23) RBI ALLOWS REMITTANCES UNDER LRS FOR PAYING FEES TO FOREIGN INSTITUTIONS IN IFSCs:

➢ RBI on June 22 said it has allowed remittances under liberalised remittance scheme (LRS) for payments of educational fees in foreign universities or foreign institutions in International Financial Services Centres (IFSCs). Presently, remittances to IFSCs under liberalised remittance scheme (LRS) can be made only for making investments in securities.

24) COMPLETE INFO ABOUT ORIGINATOR & BENEFICIARY FOR DOMESTIC AS WELL AS CROSS BORDER WIRE TRANSFERS:

➢ The Reserve Bank instructed banks and other financial institutions to ensure cross-border as well as domestic wire transfers contain complete information about the originator and beneficiary aligned the same with the relevant recommendation of the Financial Action Task Force (FATF).

➢ As per the updated RBI master directions on KYC norms, "All cross-border wire transfers shall be accompanied by accurate, complete, and meaningful originator and beneficiary information." Also, domestic wire transfers, where the originator is an account holder of the ordering regulated entity (RE), should be accompanied by originator and beneficiary information, as in the case of cross-border wire transfers.

➢ Domestic wire transfers of Rs 50,000 and above, where the originator is not an account holder of the ordering RE, shall also be accompanied by originator and beneficiary information as indicated for cross-border wire transfers.

25) LEAVE FOR EMPLOYEES IN SENSITIVE POSITIONS:

➢ As per the revised guidelines issued by RBI, the banks shall put in place a 'mandatory leave' policy wherein the employees posted in sensitive positions or areas of operation shall be compulsorily sent on leave for a few days (not less than 10 working days) in a single spell every year, without giving any prior intimation to these employees, thereby maintaining an element of surprise.

➢ Banks shall ensure that the employees, while on 'mandatory leave', do not have access to any physical or virtual resources related to their work responsibilities, with the exception of internal/ corporate email which is usually available to all employees for general purposes.

➢ Banks shall, as per a Board-approved policy, prepare a list of sensitive positions to be covered under 'mandatory leave' requirements and the list shall be reviewed periodically. Implementation of this policy shall be reviewed under the supervisory process.

BANKING LAW

RBI ACT-1934

IMPORTANT PROVISIONS OF THE ACT

SEC 2(e) - SCHEDULED BANK: As per this section, a Scheduled bank means a bank whose name is included in the 2nd schedule of RBI Act 1934. The essential condition of capital is that, such banks have paid-up capital and reserves of not less than Rs. 5 lac. Bank which are not included in the 2nd Schedule of RBI are called Non-scheduled Bank.
SEC. 17 - TYPES OF BUSINESS: Defines various types of business which RBI may transact, which include acceptance of deposit without interest from Central / State govt. purchase / sale of forex, securities, rediscounting the bills, P/N, grant loans etc.
SEC. 21 - RIGHT TO TRANSACT GOVT. BUSINESS: RBI to transact Govt. business in India i.e. remittance, exchange, keeping deposit free of interest etc.
SEC. 22- BANK NOTES: Sole right to issue bank notes.
SEC. 23 - ISSUE DEPARTMENT: Bank notes shall be issued by Issue Deptt. against security of gold coins, bullion, rupee coins, foreign securities & other approved securities upto Rs. 200 cr.
SEC. 24 - DENOMINATION OF NOTES: RBI issues all currency notes for denomination 2, 5, 10, 20, 50, 100, 200, 500, 2,000 5,000, 10,000.
SEC 28 – RULES FOR REFUNDING VALUE: RBI can frame rules for refunding value of mutilated, soiled or imperfect notes as a matter of grace.
SEC 31 – PROHIBITS ISSUE OF BEARER B/E, P/N PAYABLE TO BEARER: No person in India other than RBI or the Central Govt. is authorised to draw, accept make or issue any bill of exchange, hundi, promissory note, drafts payable to bearer.
SEC 33 - ASSETS OF THE ISSUE DEPARTMENT: The assets of issue deptt. consists of gold coins, gold bullion, foreign securities etc. The aggregate value of gold coins, gold bullion, and foreign securities held as assets and the aggregate value of the gold coins, and gold bullion shall not at any time be less than Rs 200 cr. and Rs 115 cr. respectively.
SEC 42(1) - CASH RESERVE RATIO (CRR): Consequent to GOI's notification of Sec. of RBI (Amendment) Act 2006 minimum statutory floor and ceiling limit no longer exists. Further, no interest will be payable on CRR balances w.e.f. fortnight beginning 31st March 2007. CRR is maintained on fortnightly basis: Saturday to following Friday – 14 days.

SEC.45-A-F - COLLECTING & FURNISHING OF CREDIT INFORMATION:

- Borrower enjoying secured credit limits of Rs. 10 lac and above unsecured limits of Rs. 5 lac & above: Return as on last Friday of April and Oct. every year. (Half yearly).
- Doubtful, loss and suit filed accounts with aggregate of outstanding Rs. 100 lac and above: Half-yearly March and September.
- Basic Statistical Return (BSR): BSR- I regarding borrowal a/cs of above Rs. 2 lac. BSR- II containing information about deposits with break-up into current, savings & term deposits.

SEC. 45-H-T: NBFC: No NBFC shall commence business or carry on the business of a non-banking company without obtaining a certificate of registration and having net owned fund of Rs. 25 lac or such other amount not exceeding Rs. 200 lac, as the RBI may notify.

SEC 49 - PUBLICATION (DECLARATION) OF BANK RATE: RBI shall make public from time to time the standard rate at which it is prepared to buy or re-discount B/E or other commercial paper eligible for purchase under this Act.

INTERNAL OMBUDSMAN

The nomenclature of Chief Customer Service Officer has been changed to Internal Ombudsman (IO). Appointment of IO as per Damodaran Committee recommendation. IO reports directly to CMD of bank.

- The IO is retired Chief General Manager from other bank, who has a vast experience in the operations of the Banking Industry.
- As per the Internal Ombudsman Scheme 2018, all SCBs in India having more than 10 banking outlets (excluding regional rural banks), are required to appoint Internal Ombudsman (IO) in their banks. The IO shall examine customer complaints which are in the nature of deficiency in service on the part of the bank, that are partly or wholly rejected by the bank. As the banks shall internally escalate all complaints, which are not fully redressed to their respective IOs before conveying the final decision to the complainant, the customers of banks need not approach the IO directly.

INTEREST ON OVERDUE DOMESTIC DEPOSITS

- As per the extant guidelines, if a Term Deposit matures and proceeds are unpaid, the amount left unclaimed with the bank shall attract rate of interest as applicable to savings deposits.
- On a review of these instructions, RBI has decided that if a Term Deposit (TD) matures and proceeds are unpaid, the amount left unclaimed with the bank shall attract rate of interest as applicable to savings account or the contracted rate of interest on the matured TD, whichever is lower.

BANKING REGULATION ACT 1949

IMPORTANT PROVISIONS

DESCRIPTION
SEC. 5(A) APPROVED SECURITIES: Such securities authorised by the Central Govt. or securities in which a trustee may invest money of trust under Indian Trust Act 1882.
SEC 5 (B) : BANKING: Acceptance of deposit for the purpose of lending or investment, the deposits of money from the public, repayable on demand or otherwise, and withdrawal by cheque, draft, order or otherwise.
SEC 7 : USE OF WORDS - BANK, BANKER, BANKING OR BANKING COMPANY: A Banking Co carrying on banking business in India must use the word 'bank', 'banker', 'banking company' in its name. No other organisation permitted to use these names.
SEC 9: DISPOSAL OF NON-BANKING ASSETS: No bank shall hold any immovable property howsoever acquired (except for its own use) for any period exceeding 7 years.
SEC 10: EMPLOYMENT OF MANAGING AGENTS: The period of office of an MD/whole time Chairman cannot exceed 5 years at a time (may be renewed or extended by further periods not exceeding 5 years on each occasion).
SEC 11: PAID UP CAPITAL AND RESERVE REQUIREMENT   **DOMESTIC BANKS**– Min Paid up Capital and Reserves Rs 5 lac.   **FOREIGN BANKS**– Minimum **Rs. 15 lac** (it is Rs **20.00 lac** where the bank has place of business in Bombay, or Calcutta or both).
SEC 12: CAPITAL STRUCTURE– The ratio of authorised, subscribed and paid-up capital must be minimum 4:2:1. Voting rights cannot be more than 10% by a single share holder irrespective of holdings.
SEC 13: RESTRICTION ON COMMISSION, BROKERAGE, DISCOUNT: Bank not to pay commission, brokerage, discount, etc. more than 2.5% of the paid-up-value of one share.
SEC 17 (1) : RESERVE FUND: Stipulates that a bank must create reserve fund equivalent to not less than 20% of profits out of the balance of profit of each year, before any dividend is declared. However, RBI has advised banks to maintain reserves of 25%.
SEC 19 (2): No banking company shall hold shares in any company whether as pledge, mortgagee or absolute owner of an amount exceeding 30% of paid up share capital of that company or 30% of its own paid-up capital and reserves, whichever is less.

SEC 20: RESTRICTION ON ADVANCES AGAINST OWN SHARES: No Banking Co grant loans / advances on the security of its own shares.

SEC 21(A) : RATE OF INTEREST CHARGED BY BANKS NOT TO BE SUBJECT TO SCRUTINY BY COURTS: A transaction between the banking company and its debtor shall not be reopened by any court on the ground of excessive charging of rate of interest.

SEC 23: RESTRICTION ON OPENING OF NEW AND TRANSFER OF EXISTING PLACE OF BUSINESS: Prior permission of RBI is required for opening of new branch, sub-office, sub pay office, and extension counter etc except for one month. Setting up of OBU's, guidelines of Doorstep Banking etc.

SEC 24 : MAINTENANCE OF SLR: A Banking company is required to maintain at the close of business on any day a certain percentage of its total Net demand and time liabilities in India in form of cash, gold and unencumbered approved securities with reference to Total Net Demand and Time Liabilities as on last Friday of the second preceding fortnight. Min. Floor limit abolished and Maximum 40% to be maintained.

SEC 26: RETURN OF UNCLAIMED DEPOSITS: Every Bank shall within 30 days after the close of each calendar year submit a return as on 1st Dec to RBI on all deposit a/cs which have not been operated upon for 10 years (unclaimed accounts).

The RBI has launched 'The Depositor Education and Awareness Fund (the Fund) Scheme 2014 (DEAF), under which, the amount to the credit of any a/c in India with any bank which has not been operated upon for a period of ten years or any deposit or any amount remaining unclaimed for more than ten years, shall be credited to the Fund, within a period of three months from the expiry of the period of ten years. The rate of interest payable by RBI on DEAF account is 3.0% simple interest per annum w.e.f. May 11, 2021.

SEC 29: ACCOUNTS & BALANCE SHEET: Balance sheet and P&L a/c must be prepared as on last working day of March every year in format given in Schedule III of the Act.

SEC 31: SUBMISSION OF RETURNS: A/cs and B/s together with the auditors report shall be published in the prescribed manner and 3 copies of the same shall be furnished to RBI within 3 mts from the end of the period to which the B/S pertains.

SEC 35 : INSPECTION: Empowers RBI to undertake inspection of banks.

SEC 35 (A): RBI has been given powers to give directions to the banks in the public interest or in the interest of banking policy. (Ombudsman, KYC, Clean Note policy).

SEC 36 (AA): POWERS TO REMOVE MANAGERIAL OR OTHER PERSONS: Where the RBI is satisfied that in the public interest, RBI may remove from office any Chairman, Director or other officers or employees of the banking company.

SEC 44 (A): AMALGAMATION OF BANKING COMPANIES: Terms of amalgamation shall first be approved by general body by 2/3rd majority in value and then by RBI.
SEC 45(Y): PRESERVATION OF BANK RECORDS: Central Govt. in consultation with RBI has power to frame rules regarding preservation of books, a/cs and other documents.
SEC 45 Z: RETURN OF PAID INSTRUMENTS TO CUSTOMER: Guidelines for returning the paid instruments to customer by keeping a true copy.
SEC 45 ZA: NOMINATION: For nomination in Deposit accounts.
SEC 45 ZC: NOMINATION: For nomination in Safe Custody accounts.
SEC 45 ZE: NOMINATION: For nomination in Locker accounts.
SEC 46: PENALTIES: Whoever in any return, B/s or other documents willfully makes a statement which is false, or willfully omits to make a material statement, shall be punishable with imprisonment upto 3 years and shall also be liable to fine.
SEC 47-A: VIOLATION OF KYC: RBI to impose penalty on banks for violation of KYC norms or non-reporting of frauds.

DUTIES OF BANK

a) **Duty of Secrecy:** Recognized in Sec.13 of Banking Co's. (Acquisitions & Transfer of Undertakings) Act, 1970. Banks to maintain secrecy as per Implied Contract.
b) Duty to Honour Cheque: Sec. 31 of NI Act.
c) Duty to Supply Periodical Statement of Account
d) Duty to Collect Payment

RIGHTS OF BANK

a) Right of General Lien, Set-Off, Appropriation.
b) Right to act according to the mandate given by the customer.
c) Under Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act 2002 banks can exercise the right of private sale.

DISCLOSURE OF PAYMENT

a) As per existing practice amongst the banks.
b) To safeguard Bank's own interest.
c) Duty to disclose information under law.
d) Disclosure in public interest.
e) Disclosing under instructions by the customer.
f) Disclosing to regulatory bodies.

BANKER CUSTOMER RELATIONSHIPS

	TYPE OF TRANSACTION	BANK	CUSTOMER
1	Deposit Accounts, CC (with Credit Balance)	Debtor	Creditor
2	O.D, CC, Loan A/c (with Debit Balance)	Creditor	Debtor
3	Collection of Cheques	Agent	Principal
4	Sale or Purchase of Securities	Agent	Principal
5	Issuing / Purchase of Draft by purchaser	Debtor	Creditor
6	Payee of Drafts at Paying Branch	Trustee	Beneficiary
7	Mail Transfers, Telegraphic Transfers	Agent	Principal
8	Complying with Standing Instructions	Agent	Principal
9	Providing various Services to Non A/c holders	Agent	Principal
10	Cheques deposited pending Instructions for disposal thereof.	Trustee	Beneficiary
11	Safe Custody of Articles	Bailee	Bailor
12	Leasing of Locker	Lessor, Landlord Licensor	Lessee, Tenant Licensee
13	Mortgage of Immovable Property	Mortgagee	Mortgagor
14	Pledge of Securities / Shares	Pledgee	Pledgor
15	Hypothecation of Securities	Hypothecatee	Hypothecator
16	Sale / Purchase of Shares etc	Agent	Principal
17	Maintaining Currency Chest	Agent	Principal-RBI
18	A wrong credit given by the bank where the amount has not so far been recovered.	Beneficiary	Trustee

NEGOTIABLE INSTRUMENTS ACT, 1881

(IMPORTANT SECTIONS)

SEC.	CONTENTS
4	Definition of Promissory Note
5	Definition of Bill of Exchange
6	Definition of Cheque
8	Definition of Holder
9	Definition of Holder in Due Course
10	Payment in Due Course
13	Meaning of Negotiable Instrument
15	Definition of Endorsement.
18	In case of difference in amount between the words and figures, the amount in words is to be treated as the amount ordered by the drawer to pay.
20	Inchoate instrument i.e., incomplete instrument.
22	Three days of grace for calculating the maturity date of usance instrument.
25	Maturity date in holiday usance instrument is payable on next preceding business day
26	Minor may draw, endorse and accept a negotiable instrument so as to bind all parties except himself.
31	Liability of Drawee Banker; Banker to compensate for wrongful dishonour.
45 A	Holder rights to get duplicate of lost bill
63	The drawee of a B/E has to accept it within 48 hours of presentation.
80	If no rate of interest is mentioned in the P/N, interest @ 18% p.a. is to be paid.
85-A	Protection Paying banker in case of Bank drafts.
85-(1)	Paying banker is protected by payment in due course of an order cheque which is properly endorsed by the payee or his agent.
85-(2)	Protection to Paying banker in case of a bearer cheque.
87	Material alteration of Negotiable Instrument renders it void.
89	Paying Banker gets protection where a cheque is materially altered but does not appear to have been altered.
99	Noting; and Sec 100 – Protest.
118	Presumptions as to negotiable instruments of consideration
123	Cheque crossed Generally; Sec 124 Cheque crossed Specially
128	Payment in due course of crossed cheque.
130	Not Negotiable crossing – The transferee cannot have a better title to the cheque than that of the transferor.
131	Collecting Banker's protection in respect of crossed cheques.
138	Dishonour of cheque for insufficiency, etc. of funds in the account.
148	Now empowers the appellate court, for appeals against conviction under Sec 138, to direct the appellant to deposit a minimum 20% of the fine/compensation awarded, in addition to interim compensation paid under Sec 143-A.

NEGOTIABLE INSTRUMENTS ACT - 1881

STATUTE: Section 13 gives the meaning of Negotiable Instruments and states Negotiable Instruments means a Promissory Note, Bill of Exchange or Cheque payable either to order or to bearer.

CUSTOMS & USAGE:

1) Pay order / Banker's cheque	2) Govt. P/ N	3) Certificate of Deposit
4) Commercial Paper	5) Treasury Bills	6) Hundi
7) Bill of Lading #	8) Railway Receipts #	9) Dock warrant #
10) Warehouse Receipt #	11) Delivery Order #	12) GRs issued by transport operators approved by IBA.

The instruments mentioned above from Serial No. 7 to 11 are also documents of title to goods under Sale of Goods Act.

BASIC FEATURES OF NEGOTIABLE INSTRUMENTS:

a) Freely Transferability: The instrument should be freely transferable. Transferability may be by: (i) Delivery, if it is payable to bearer (Section 47) **(ii)** By endorsement and delivery if it is payable to order (Section 48).

b) Holder's Title Free from Defects: The person (transferee) taking the instrument bonafide for value (known as holder in due course) gets an absolute title to the instrument notwithstanding any defect in the title of the transferor or any prior party.

TYPES OF NEGOTIABLE INSTRUMENTS:

PROMISSORY NOTE: (Sec. 4 of NI Act).

There are two types of P/ N, i.e. Demand P/N, i.e. payable on Demand and Usance P/N, payable after a pre-decided definite period.

- Promissory Note required to be stamped as Indian Stamp Act.
- Currency notes though fulfill the number of conditions of P/ N have been excluded from P/N as per Sec. 4 of NI Act.

BILL OF EXCHANGE: (Sec. 5 of NI Act).

A B/E may be a demand are usance. In case of cash sale in the commercial transactions, normally demand B/E are drawn and in case of credit sales, usance bills of exchange are drawn by the seller on the purchaser.

CHEQUE: Section 6 of NI Act. A Cheque is a bill of exchange, drawn on a specified bank and not expressed to be payable otherwise than on demand. The Act covers Electronic Cheque i.e. a cheque which contains the exact mirror image of a paper cheque, with the use of digital signatures.

DIFFERENT PARTIES

	P / N	BoE	CHEQUE
NO. OF PARTIES	Two	Three	Three
DRAWER	Debtor / Borrower	Creditor / Seller	Debtor / A/c Holder
DRAWEE	-	Debtor or Buyer	Bank
PAYEE	Creditor	Person authorised to obtain payment	Person named in the cheque

	HOLDER (Sec. 8)	HOLDER IN DUE COURSE (Sec. 9)
Consideration	Not essential	Essential
Actual Possession	Not essential	Essential
Defective Title	Will affect the instrument	Will not affect the instrument.

RIGHTS OF HOLDER:

a) Holder can obtain a duplicate of the lost instrument (Section 45-A).

b) Holder can cross the cheque if not already crossed, convert a general crossing to a special crossing, endorse and can negotiate, if the negotiation is not restricted.

c) Holder can sue in his own name in relation to the instrument.

d) Holder can complete an inchoate instrument.

e) Holder can give proper discharge to the person making the payment.

RIGHTS OF HOLDER IN DUE COURSE:

- Every prior party to a negotiable instrument is liable thereon to a holder in due course until the instrument is duly satisfied (Sec. 36).
- If a bill is drawn payable to the drawer's order in a fictitious name, the acceptor is not relieved from liability to any holder in due course, provided endorsement and the drawer's signatures are in the same handwriting (Sec. 42).
- If a bill of exchange or promissory note is negotiated to a holder in due course, the other parties to the instrument cannot escape liability on the ground that the delivery of the instrument was conditional or for a special purpose only (Sec. 46).

CALCULATION OF DUE DATE

- Due date is required to be calculated for payment in case of usance promissory note and usance bill of exchange. While calculating the due date three days of grace are required to be added (Section 22 of N.I. Act).

- If the drawer has either already mentioned the due date or due date is already calculated by the drawer then grace period is not to be given.
- In case of usance promissory note on each installment three days of grace are to be added.
- In case of CP and Certificate of Deposit even though they are usance P/N no days of grace are to be given because due date is already calculated by the drawer.

PRINCIPLES FOR CALCULATING THE DUE DATE:

- If a usance period is mentioned in complete months while calculating the due date corresponding date of the concerned month is to be taken and there after three days will be added.
- If that concerned date is not available, then last date of the month is to be taken, e.g., if due date is to be calculated for one month from 31^{st} Jan, corresponding day works out to 31^{th} Feb and as that day is not available, we will have to take last day of the month i.e. $28^{th}/29^{th}$ Feb and after adding three days of grace, due date will be 3^{rd} March.
- If the bill is drawn in days, then while calculating the due date, 1^{st} day is to excluded and last day to be included.
- If the maturity date, falls on Public Holiday / Sundays, the bill will become payable on next preceding business day. Public holidays are declared under Section 25 of NI Act by Central Govt. only after making the notification in the Official Gazette.

NEGOTIATION AND ENDORSEMENTS

NEGOTIATION:

Negotiation means transferring an instrument from one person to another in such a manner as to convey title and to constitute the transferee the holder thereof.

Bearer Instruments (Section 47):

In case of bearer instruments, the negotiation is complete with delivery only.

Order Instruments (Section 48):

The negotiation by endorsement and delivery would be required in case of negotiable instruments payable to order.

ENDORSEMENTS: (Sec. 15 of N.I. Act)

Endorsement is made for the purpose of negotiation of a negotiable instrument, by the maker or holder of a negotiable instrument, by signing on the face or backside of an instrument or on a slip of paper called 'allonge'.

IMPORTANT ASPECTS OF ENDORSEMENT:

- **Types of Instruments Endorsed:** Cheque, B/E & promissory note can be endorsed.
- **Who can Endorse:** An endorsement is made by maker or holder of an instrument.
- **Number of Endorsements:** There can be any number of endorsements.
- **Minor:** A minor can endorse u/s 26 of NI Act, but he will not be liable as an endorser.

TYPES OF ENDORSEMENTS
BLANK ENDORSEMENTS - Section 16 (1): If the endorser signs his name only, without adding any words or directions, the endorsement is said to be blank. This makes the instrument payable to bearer as per Section 54.
ENDORSEMENT IN FULL: Where the endorser signs his name and adds the name of endorsee specifically, the endorsement is called full. Paying bank gets valid discharge if the endorsement is regular.
RESTRICTIVE ENDORSEMENT (SECTION 50): When the endorser adds words like 'Pay the contents to A only' etc. The endorsee cannot endorse the instrument further.
PARTIAL ENDORSEMENT SECTION 56: When an endorser transfers only a part of the amount of the negotiable instrument to the endorsee. It is not a valid endorsement for purpose of negotiation and such instrument should not be paid.
CONDITIONAL ENDORSEMENT: An endorsement which stipulates some conditions is called conditional endorsement. For example 'Pay to Mr. A when he marries'. The fulfillment of condition is binding between endorser and endorsee only. The paying bank is not bound to verify the fulfillment of such conditions.
SANS RECOURSE ENDORSEMENT: By adding the words like 'Pay Rohit or order without recourse to me', the endorser excludes his liability. It is caution to endorsee.
FACULTATIVE: Where an endorser waives the condition of notice of dishonour.
FORGED: Endorsement made by a person other than the holder, by signing the name of holder, is called forged endorsement. All endorsees including a Holder or Holder in due course or Holder for value subsequent to the forged endorsement do not derive any title to the instrument. The Paying banker gets protection as per Sec. 85 (I) provided the endorsement is regular.

ENDORSEMENT ON BEARER CHEQUES:

- Section 85 (I) protects a paying banker in case of payment of an Order Cheque and Sec.85-A in case of a Bank Draft, provided the endorsement is regular (which may be or may not be genuine).
- A Paying bank gets protection u/s 85(2) in respect of a Bearer cheque and he need not verify the endorsement, as once a bearer is considered always a bearer. For such endorsements the paying bank is not to take any cognizance.
- All types of endorsement on bearer cheque are meaningless.

CROSSING

GENERAL CROSSING (SEC. 123):
Two parallel transverse lines on the face of the instrument with or without the words 'not negotiable'. A general crossing, as per Sec 126, is a direction to the paying bank not to pay a cheque across the counter.

SPECIAL CROSSING (SEC. 124):
Where a cheque bears across its face, an addition of the name of a bank either with or without the words 'not-negotiable', the cheque shall be deemed to be crossed specially, and to be crossed to that banker. In simple words, a special crossing is a direction to the paying bank for paying to that bank whose name is there on the face of the cheque.

IMPORTANT ASPECTS OF CROSSING:

- **Two transverse lines essential for General Crossing:** Two transverse lines across the face of the cheque are essential for general crossing.
- **Two transverse lines not essential for Special Crossing:** The writing of name of the bank is legal requirement.
- **Crossing is applicable in case of cheques:** Crossing is applicable in case of cheques only and does not cover B/E or P/N.
- **Who can Cross the Cheque:** Crossing can be done by: A drawer, at the time of issue, a holder (general to special or not negotiable crossing) and a banker who receives the cheque for collection (special crossing).
- **General Crossing to Special Crossing and vice versa:** A general crossing can be converted to a special crossing by the drawer or by any holder. However a special crossing can be changed to a general crossing only under the signatures of the drawer since it amounts to material alteration.
- **Cheque crossed to more than one bank:** If a cheque is crossed specially to more than one bank (unless one bank is acting as collecting agent to another), the payment shall be refused.
- **Cheque crossed to two or more branches of the same bank:** Cheque crossed to two or more branches of the same bank, is considered to be crossed to one bank only.
- **Not Negotiable Crossing (Section 130):** In case of a cheque bearing not-negotiable crossing, it is warning to the transferee of a cheque that he will not have a better title than that of the transferor inspite of fulfilling all the requirements of Holder in due course.
- **Protection To Paying Bank For Crossed Cheque:** Protection available to a paying bank, as per Sec 128 of NI Act, if the same is a payment in due course as per Section 10 of N.I. Act.
- **Account Payee crossing:** Not recognized in any act. It is outcome of custom and usuage. It is a direction to the collecting banker

COLLECTION OF CHEQUES

- **Section 131**: This Section provides protection to the Collecting banker against conversion, i.e. interference with the legal rights of the true owner.

A banker who has in good faith and without negligence received payment for a customer of a Cheque (not available for P/N or B/E) crossed generally or specifically to himself, shall not in case the title of the cheque proves defective, incur any liability to the true owner of the cheque by reason only of having received such payment. The present section gives protection provided following conditions are fulfilled:

a) The bank must have acted in good faith and without negligence.
b) The cheque collected must be crossed.
c) Bank has received the payment as agent for collection.
d) Bank has collected the cheque in the duly introduced account of customer only.

- Protection under Sec. 131 is available in case of cheque only and not in case of P/N, or B/E.

PAYMENT OF CHEQUES

- **Liability of Drawee (Paying Banker)**: It is statutory obligation of the banker to honour the cheques of a customer provided there is sufficient balance and the cheque is otherwise in order. Section 31 of NI Act provides that "The drawee of a cheque:

a) Having sufficient funds of the drawer in his hands,
b) Properly applicable to the payment of such cheque
c) Must pay the cheque when duly required to do so
d) In default of such payment, must compensate the drawer for any loss or damage.

- **Protection for Paying Banker in case of Cheque:**
- **Regularity of Endorsement Sec 85(1)**: Paying banker's liability is to ensure the regularity of endorsement and is not concerned with genuineness of endorsement. The genuineness of endorsement is the liability of collecting banker. Therefore, protection is available to the paying banker in case of forged endorsements.

PAYMENT IN DUE COURSE (Sec. 10)

a) In accordance with the apparent tenor of the instrument.
b) In good faith and without negligence
c) To the person in possession of the instrument
d) Under circumstances which do not afford a reasonable ground for believing that he is not entitled to receive payment of the amount mentioned therein.

- **WHEN BANK SHOULD NOT PAY:**

Death of the drawer: The death of a drawer in case of individual's a/c (such as individual / proprietorship, joint accounts, HUF, partnership firm) terminates the contractual relationship.

Company in liquidation: The balance lying with the bank vests with the official liquidator.
Insane customers: The insanity terminates the contractual capacity.
Insolvent drawers: Where a customer is adjudged insolvent, the balance in the account is vested with official receiver /assignee. Hence bank should stop the operations in the account.
Countermanding: On receipt of valid stop payment instructions from the drawer.
Others: When cheque is post dated or bank has insufficient funds or cheque is of doubtful legality, or the funds in the hands of the bank are not properly applicable to the payment, or cheque or it is irregular, ambiguous or otherwise materially altered or has become stale etc.

DISHONOUR OF CHEQUES (Sec. 138-148)

a) The cheque should have been issued for discharge of lawful liability.
b) Cheque should be returned with the reason 'insufficient balance' but due to different judgments of Supreme Court reasons like Refer to drawer, A/c closed, Exceeds arrangement, Payment stopped by drawer and effects not clear are treated equal to insufficient balance.
c) The payee or holder in due course should give notice to drawer within 30 days of return of cheque with the reason 'insufficient balance' and demanding payment within 15 days of his receiving information of dishonour.
d) The drawer can make payment within 15 days of the receipt of notice and only if he fails to do so prosecution could take place.
e) The complaint is to be made within one month of the cause of action arising i.e. expiry of notice period.
f) **Summary Proceedings:** Fine upto Rs.5000 or imprisonment upto 1 year or both.
g) **Regular Proceedings:** Punishment is fine upto double the amount of cheque or imprisonment upto 2 years or both.

NEGOTIABLE INSTRUMENTS (AMENDMENT) BILL, 2017.

● **SECTION 143-A:**
This section has been introduced giving powers to a Court trying an offence under Sec 138 to order the drawer of cheque to pay interim compensation to the complainant in summary trials / summons case where he pleads not guilty to the accusations in the complaint. Furthermore, the interim compensation shall not exceed 20% of amt of the cheque and shall be payable within 60 days from date of the order.

● **SECTION 148:** Now empowers the appellate court, for appeals against conviction under Sec 138, to direct the appellant to deposit a minimum 20% of the fine/compensation awarded, in addition to interim compensation paid under Sec 143-A.

● In case, the drawer is acquitted (during trial or by the appellate court), the court will direct the complainant to return the interim compensation (or deposit in case of an appeal case), along with an interest. This amount will be repaid within 60 days of the court's order.

RIGHT OF LIEN, SET OFF & APPROPRIATION

PARTICULARS	LIEN	SET-OFF	APPROPRIATION
Legal Statute	Indian Contract Act (Sec 170, 171)	Customs and practice amongst Bankers	Indian Contract Act (Sec 59, 60 and 61)
Meaning	Right of creditor to retain posse--ession of goods and securities until the debts has been repaid.	Rights of the Bank to club / consolidate different a/cs of same borrower to arrive at the net sum due.	Method of crediting amount deposited by the customer to its outstanding loan in CC/Current (OD).
Banker Customer Relationship	Creditor - Debtor	Creditor – Debtor & Debtor – Creditor	Creditor - Debtor
Applicable on	Goods & Securities	Amount of claim	Amount of claim
Applied to	A/c in the same order same capacity	A/c in the same order same capacity	A/c in the same order same capacity
Contingent Debts	Not applicable	Not Applicable	Not applicable
Quantum of amount	Amount should be specific	Amount should be specific.	Amount should be specific
Requirement of legal notice	Required except in case of death, insolvency or receipt of a G.O.	Required except in case of death, insolvency or receipt of a G.O..	Not Applicable
Limitation	No Limitation. Bank can adjust lawful time barred debts	No Limitation. Bank can adjust lawful time barred debts.	No Limitation. Bank can adjust lawful time barred debts
Garnishee Order (GO)	Banker's lien is a general lien is an implied pledge.	Bank should exercise this right for adjusting its own debts before complying with Garnishee.	Bank to exercise this right for adjusting its own debts before complying with Garnishee order.
Death of the customer	Bank has automatic and implied right	Bank has automatic and implied right.	Applicable

WHERE RIGHT IS AVAILABLE OR NOT

DEPOSIT IN THE NAME OF	LOAN IN THE NAME OF	RIGHT AVAILABLE OR NOT
Single person	Jointly with others	Available
Partner in a firm	Partnership firm	Available
Single name	Same name	Available
Proprietor	Proprietorship firm	Available
Joint – former / survivor	Former	Available
Joint account	One of joint holders	Not Available
Partnership firm	One of partners	Not Available
Trust	Trustee	Not Available

SAFE DEPOSITS OF ARTICLES & LOCKERS

	SAFE CUSTODY (Indian Contract Act)	LOCKERS (Transfer of Property Act)
Relationship	Bank is a Bailee and the Customer is a Bailor.	The Bank is a lessor and the customer is a lessee.
Leasing out the space	No space is leased out to the customer	A small locker in the lockers cabinet is leased out.
Nomination	Only one nominee except in case of jointly operated a/c where no nomination is allowed.	Only one nominee except in case jointly operated locker a/c. (but not more than two)
Duty of the Bank	The bank is expected to take proper and extra care regarding safety of the articles.	The bank has to ensure that lockers have been properly locked after operation of the locker.
Delivery of articles	Delivery of the goods on surrender of safe custody receipt.	The customer operates the locker at its discretion.
Death of the Depositor	Succession Certificate is not valid in respect of Safe Deposit of articles of a deceased. Only Probate of the 'Will' or Letter of Administration is required for delivery of the articles.	Succession Certificate is not valid in respect of Safe Deposit Locker of the deceased. Only Probate of the 'Will' or Letter of Administration is required for delivery of the articles.

NOMINATION

(Sec. 45 ZA – 45 ZF of Banking Regulation Act)

- **Types of Accounts:** (a) Deposit accounts, (b) Safe custody articles, (c) Lockers.
- **Individual Capacity Accounts:** Nomination is available in individual a/cs. However, nomination is available to a sole proprietor in all type of deposit a/cs.
- **Joint Account of Individuals:** Nomination is available for joint account of individuals.
- **Representative A/cs :** A firm, club, company, trust, etc., cannot act as nominee.
- **Minor as Nominee:** Nominee can be a minor. If a minor is the nominee, then a third person must be appointed who will act on behalf of the minor for receiving money if the account holder dies during the minority of the nominee.
- **Minor:** In the guardian operated a/cs of minor, guardian has every right to make the nomination on behalf of minor. However, no nomination in self operated a/c of minor.
- **Safe Custody:** Nomination is available where articles are held in single name (not available for joint name) of individual accounts.
- **Safe Deposit Locker:** There could be more than one person (but not more than two), for jointly operated locker accounts. Each account holder in joint account can nominate one person.
- **Nominee is an Agent:** In nomination, the nominee is treated as an agent for receiving money i.e., trustee of the legal heirs.
- **Premature Payment:** Premature payment to the nominee before due date is a valid discharge to bank in case of deceased account.
- **Loan:** No Loan to Nominee but premature payment allowed.
- **Legal Heirs:** Payment cannot be made to the legal heirs inspite of production of succession certificate / letter of administration / probate etc. in a/cs in which nomination is made. Payment to the nominee can be refused only when competent court issues the stay / prohibitory / injunction orders.

ELECTRONIC CHEQUES & TRUNCATED CHEQUES

- **ELECTRONIC CHEQUE:**

An Electronic Cheque is a cheque in electronic form as against the usual paper instrument in writing - a cheque which contains the exact mirror image of a paper cheque and is generated, written and signed with the use of digital signature (with or without biometrics signature and asymmetric crypto system)

- **TRUNCATED CHEQUES:** Defined in Sec. 6 of the N.I. Act, as a cheque which is truncated during the course of a clearing cycle either by the clearing house or by the bank whether paying or receiving payment, immediately on generation of an electronic image for transmission, substituting the further physical movement of the cheque in writing.

GARNISHEE ORDER & ATTACHMENT ORDER

PARTICULARS	GARNISHEE ORDER	ATTACHMENT ORDER
Issuing Authority	Competent Court at the request of judgement creditor	Income Tax, Sales Tax, Custom Authorities etc.
Legal Provision	Civil Procedure Code, Sec. 60, Order XXI, Rule 46	Related statutes such as IT Act, Sales Tax Act etc.
Stages / Steps	Order Nisi & then Order Absolute	Always in the Absolute form.
Liability	Private liability	Statutory liability
Recovery of	Recovery of private dues.	Recovery of Govt. dues
Depositor	Judgement debtor	Assessee in default
Bank	Judgement debtor's debtor	Assessees debtor
Amount	May be mentioned specifically	Mentioned specifically
Applicable to which amount	On clear balance available in the a/c at the time of receipt.	Applicable on subsequent balance.
Limitation Pd	12 years	30 years
Deposits	Demand & Time deposits	Demand & time deposits
Set-off / Appropriation	Available for certain and due debts	Available for ascertainable and due debts
Joint a/cs, order in single name	Not applicable	Equal share depending upon the number of account holders
Joint a/c & order in same names	Applicable upto the order amount	Applicable upto the order amount
Order in the name of Co's, Partner, Trustee	Not applicable for a/cs in the name of firm, trusts or accounts in the representative capacity.	Not applicable for a/cs in the name of firm, trusts / or a/cs in the representative capacity.
Deceased a/c	Applicable	Applicable
Insolvent a/c	Not applicable	Not applicable.
Undrawn CC or OD limit	Not applicable,	Not applicable.
Unutilised limit against FDR	Balance Amount of FDR	Balance Amount of FDR
FDR as collateral security	Not applicable if FDR kept as collateral security	Not applicable
Preference	AO will have the preference over GO if both received together. However, Bankers right of Set- Off is superior	AO will have the preference over GO if both received together. However, Bankers right of Set- off is superior.

OPERATING INSTRUCTIONS IN JOINT A/C

PARTICULARS	EITHER OR SURVIVOR	FORMER OR SURVIVOR	JOINT A/C (TWO OR MORE)
OPENING OF ACCOUNT	Both have to sign	Both have to sign	Both / All have to sign
STOP PAYMENT OF CHEQUE	Either can stop the payment	Former only can stop the payment	Any one can stop the payment
CLOSING OF ACCOUNT	Both have to sign to close the account	Only former has to sign to close the account	Both / All have to sign to close the account
MAKING / Cancellation of NOMINATION.	Both have to sign for change in nomination	Both have to sign for change in nomination	Both / All have to sign for change.
ATTACHMENT ORDER	Each of them is equally liable	Each of them is equally liable	Each of them is equally liable.

a) **PAYMENT ON MATURITY – 'E OR S':** If fixed / term deposit accounts are opened with operating instructions 'Either or Survivor', the signatures of both the depositors need not be obtained for payment of the amount of the deposits on maturity.

b) **PAYMENT BEFORE MATURITY – 'E OR S':** The signatures of both the depositors may have to be obtained, in case the deposit is to be paid before maturity. If the operating instruction is 'Either or Survivor' and one of the depositors expires before the maturity, no pre-payment of the fixed / term deposit may be allowed without the concurrence of the legal heirs of the deceased joint holder. This, however, would not stand in the way of making payment to the survivor on maturity.

c) **PREMATURE WITHDRAWALS - 'F OR S':** In case the mandate is 'Former or Survivor', the 'Former' alone can operate/withdraw the matured amount of the fixed/term deposit, when both the depositors are alive. However, the signature of both the depositors may have to be obtained, in case the deposit is to be paid before maturity. If the former expires before the maturity of the fixed/term deposit, the 'Survivor' can withdraw the deposit on maturity. Premature withdrawal would however require the consent of both the parties, when both of them are alive, and that of the surviving depositor and the legal heirs of the deceased in case of death of one depositor.

d) **PREMATURE WITHDRAWALS:** If the joint depositors prefer to allow premature withdrawals of fixed/term deposits also in accordance with the mandate of 'Either or Survivor' or 'Former or Survivor', as the case may be, it would be open to banks to do so, provided they have taken a specific joint mandate from the depositors for said purpose.

TYPES OF DEPOSIT ACCOUNTS

INDIVIDUALS ACCOUNTS: As per Sec. 11 of Indian Contract Act, 1872, every person is competent to contract who is of the age of majority and who is of sound mind and is not disqualified from contracting by any law such as insolvent and resident of enemy country. Even though minor has no capacity to contract, RBI has allowed the minor to open the deposit a/c as per the powers to become the drawer granted to him as per Sec 26 of NI Act.

JOINT ACCOUNTS: Two or more (competent) persons can open a joint account. Their operational instructions must be clear for operation of the account, including for payment of the balance in event of death of one or more joint account holders.

HINDU UNDIVIDED FAMILY (HUF)

Hindu Undivided Family (HUF) or Joint Hindu Family is not based on any Act, however, the share in ancestral property is decided on the basis of Hindu Succession Act, 1956.

- **Management of the HUF:** The HUF are managed by the eldest male member called Karta. As per the latest amendment of the Hindu Succession Act, female members of HUF enjoys the same rights as male members. Consequently, the Karta is now the eldest member of the HUF, male or female. There are no restrictions on the number of co-parceners. One co-parcener is not an agent of other co-parcener.
- **Powers of Karta:** As per law, Karta has powers to incur debt, execute documents, pledge securities on behalf of the family business, for that consent of the co-parceners is not required. Karta's liability is unlimited but co-parceners are liable to the extent of their share in HUF property. However, if the documents are signed by all the co-parceners, only then they are personally liable.
- **Granting of credit facility to HUF:** While giving loan to HUF, the bank should ensure that the credit facility is for the legal necessity of HUF. As such, the loan documents should be got executed from Karta and all major co-parceners, and guardians of minor co-parceners so that they become personally liable. When the documents are executed by the Karta alone and not by the coparceners, HUF property is liable and Karta is personally liable and coparceners share in HUF is liable, but coparceners are not personally liable.
- If Karta stays abroad most of the time, he continues to be Karta and for operating the a/c he can give mandate to any one, may be the outsider or any member of the family.
- A co-parcener cannot countermand the cheques unless the Karta has delegated the authority to operate the account.
- As per Supreme Court decision, HUF cannot become the partner in any other partnership firm as HUF does not have legal entity and it is not formed by the act of parties.

MINORS

- As per Section 3 of the Indian Majority Act, 1875, every person who is domicile in India will become major on completion of age of 18 years.
- According to the Indian Contract Act, 1872 a minor is not capable of entering into a valid contract and the contract entered into by him is void ab-initio. A minor cannot ratify an agreement after attaining majority.
- A contract for the supply of necessities of life to a minor is, however, a valid contract, if it is done by a person who is legally bound to supply the necessities to the minor and these necessities must be suitable to the conditions of his life. In case of other contracts, a minor may repudiate his promise or his consent.
- RBI has also allowed the minor to open the self-operated deposit accounts provided he has completed the age of 10 years and is literate. Two minors can also open jointly operated deposit account if they have completed the age of 10 and are literate.

CHECK LIST:

- Account can be opened in the name of the minor to be operated by his guardian (mother or father) or the guardian appointed by the court (legal guardian) or Testamentary guardian i.e. guardian appointed by the Will of father.
- On attaining majority, there is no need to close the account and after obtaining signature and identification of the erstwhile minor, the account will be continued as it is. No consent of the guardian is required.
- RBI on the basis of Supreme Court Judgement has allowed mother to operate all types of accounts under all system of personal law even though the father is alive, i.e., both mother and father will act in the capacity of natural guardian simultaneously.
- After the death of both, the guardian is to be appointed by the court. In case the minor dies, the balance in the account will be paid to the legal heirs of the minor and in case of joint account, the balance will be held at the disposal of the guardian.
- No overdraft / loan should be granted to a minor, even with security..
- In case an advance is granted to a minor on the guarantee of a third party, the guarantor will not be held liable because the contract is void ab-initio.
- According to Section 26 of NI Act, a minor can draw or endorse or negotiate a cheque or a bill but he cannot be held liable on such cheque or bill. He cannot be sued in respect of a bill accepted by him during his minority. Such bill, nevertheless, will be valid and other parties will be liable in their respective capacities.
- A minor can be admitted to the benefits of partnership with the consent of other partners as per Partnership Act. Within six months after he attains majority or when it comes to his knowledge after

becoming major whichever is latter, minor will have to give public notice whether he wants to continue as a partner. If he remains silent during this period, it amounts to his implied consent. If he chooses to become a partner, he will be held liable as a partner from the date he has been admitted to the benefit of the partnership firm.

- Minor cannot give stop payment instructions in partnership account but he has every right to demand statement of account from the bank.
- A minor may be appointed as an agent to act on behalf of his principal, but legally he cannot be held responsible to his principal as well as third parties. In case of self operated account, if minor dies the amount will be paid to the legal heirs i.e. claim case.

NATURAL GUARDIANS OF A MINOR

a)Hindu	Father and after the death of Father, the Mother of minor
b)Married Hindu Girl	Husband
c)Widow Hindu Girl	Guardian of the husband.
d)Minor with Step Father	Mother and after her father
e)Minor with Step Mother	Father and after him mother
f) Muslim	Father and after him executor of fathers 'Will' except mother and after him fathers father.

TRUST ACCOUNTS

- No bank account of Public trust can be opened without taking the registration certificate issued by the Charity Commissioner. For Private trusts, registration is optional and, for public trusts, registration is compulsory.
- A Bank is not bound by trust means, if the trust is oral there is no responsibility, on the part of the bank to enquire as to whether an account is Trust account or not. Bank is not bound by trust, if it is not within its knowledge.
- If any one trustee dies, the provisions of trust deed will operate. If the sole trustee dies, further operation in the a/c should be stopped and cheque already signed be paid.
- Stop payment instructions for cheque can be given by any trustee including those who is not authorised to operate the trust account.
- Trustee cannot delegate his powers unless it is provided in trust deed.
- Power to Borrow: Trustees cannot borrow unless it is specifically provided in trust deed.
- Trustee's Death, Insanity or Insolvency: Cheque issued by the trustee will be paid if otherwise in order.

PARTNERSHIP FIRMS

- Partnership firms are governed by Indian Partnership Act, 1932.
- **MINOR:** Minor can be admitted to the benefits of partnership with the consent of all the partners. He is not personally liable but his share of property is liable.
- **REGISTRATION:** Registration of partnership firms is done with Registrar of Firms. Banks normally do not grant any type of credit facility to the non-registered firms because unregistered firm cannot enforce any suit against the third parties.
- **NUMBER OF PARTNERS:** Minimum - 02, Maximum - 10 Banking Business and 20 for other Business.
- As per the new Companies Bill 2013 the number of person in association or partnership not to exceed 100. The restriction not to apply on association of partnership, constituted by professionals under special Acts.
- HUF cannot be a partner. However since the Company has separate legal entity, it can become the partner if permitted by Articles of Association.
- U/s 19 (1), the acts of a partner to carry on business of the firm in a usual way, bind the firm and a partner is an agent of the firm for the purpose of business of the firm. In order to bind the firm by his acts, a partner must sign for and on behalf of the firm.
- As per Section 18 of Partnership Act, every partner is the agent of firm for the purpose of the business of the firm. Therefore, act of a partner is known as the act of the firm. This is also known as the implied authority of the partner.
- **This rule has certain exceptions contained in Sec 19(2).**
  The exceptions are:
  - **a) Opening of the account,**
  - **b) Closing of account**
  - **c) Mortgage**
  - **d) Giving of guarantee**
  - **e) Entering into compromise**
  - **f) Filing of suit**
  - **g) Acknowledgment of liability**
  - **h) Withdrawal of suit**
  - **i) Appointment of arbitrator.**
- A sleeping/dormant partner can stop the payment of the cheque.
- **Liability of Directors and Partners for a Dishonounred Cheque:** Supreme Court in SMS Pharmaceutical Ltd vs Neeta Bhalla has held that nominated directors, independent directors and dormant partners are not liabile for the offence. Only the directors who are directly responsible for the cheque issued would be liable for criminal action. In case of partnership, only the partner incharge would be liable for the offence. As regards the Managing Director or Joint MD, the court held that they are responsible for the business of the company and are responsible.

THE NEW COMPANIES BILL 2013

	PVT LTD	PUBLIC LTD
MEMBERS MIN	TWO	SEVEN
MEMBERS MAX	Two hundred*	NO LIMIT
DIRECTORS	MIN – 2, MAX – 15	MIN – 3, MAX – 15

* The maximum number is exclusive of employees / former employees who are the member of the Co.

- The new Companies Bill 2013, contains 470 sections and 7 schedules.
- It should be registered with the Registrar of Companies. Though a company consists of a number of persons, yet it is a separate single entity. It has perpetual succession.
- **MEMORANDUM OF ASSOCIATION:**
- MOA is the constitution of the company and it establishes the relationship of the company with the rest of the world. The Company is incorporated only for the objects and purposes expressed in the memorandum. Any act purported to be done by the company which is beyond the scope of the memorandum is ultra vires.
- **ARTICLES OF ASSOCIATION (AOA):**
- Articles of Association are the bye-laws and internal rules and regulations of the company. Any act done by the Co which is beyond the scope of AOA is intra vires.
- **CERTIFICATE OF INCORPORATION:** Issued by the Registrar of Companies after the company has been registered with it. The legal existence of the company begins from the date of issue of certificate.
- **DEATH OF A DIRECTOR:** As the company has an existence separate from that of the shareholders / directors, the death of a director does not affect the operations in the account. Even if a cheque signed by an authorised director who has died, is presented after his death, the banker cannot return the cheque.
- **CONVERSION:** A cheque payable to the company should never be deposited in the personal account of directors, as it would amount to conversion u/s 131 of NI Act.
- **PRIORITY OF CHARGE:** Decided on the basis of date of execution and not date of registration of mortgage.

SEC. 2(62) - ONE PERSON COMPANIES (OPC): 'One Person Company' means a company which has only one person as a member. It is a private limited company. Only a natural person who is an Indian citizen and resident can set up the company or become a nominee for the sole member of OPC. A person can incorporate one OPC only or become a nominee in one such company only. OPC is meant for very small businesses. In the case of OPC the Memorandum of association should state the name of the person, who, in the event of the death of the subscriber shall become the member of the company.

SMALL COMPANY: 'Small Company' means a company other than a public company with paid up share capital of Rs. 4 Crore or such higher amount which shall not be more than Rs. 40 Cr or with turnover or Rs. 20 Cr as per its last profit and loss account or such higher amount not exceeding Rs. 100 Crore.

DORMANT COMPANY: A Company formed and registered under the Act for a future project or to hold an asset or intellectual property and which has no significant accounting transaction. Such a company or an inactive company may make an application to the Registrar in such manner as may be prescribed for obtaining the status of a dormant Co.

SEC 8 COMPANY: Section 8 Company is a company formed by a person or an association of persons to be registered as a limited company which has in its objects the promotion of commerce, art, science, sports, education, research, social welfare etc. Sec. 8 Company can be incorporated without addition of the words 'limited' or 'private limited'. A firm may be a member of the Co registered under this section.

PRIVATE LIMITED COMPANY:

a) The Articles restrict the right to transfer its shares.

b) Minimum No. 2; Maximum No: 200 (except in one person company).

PUBLIC COMPANY:

a) Minimum member for Public Company is 7 and there is no maximum.

b) Public company to have minimum 3 Directors and max limit is 15.

Woman Director: At least one woman Director mandatory for:

(a) Every listed company, and (b) Every other public company having paid up share capital of Rs. 100 crore or more or turnover of Rs. 300 crore or more.

Resident Director: Every Company must have atleast one Director who has stayed in India for a total period of not less than 182 days in the previous calendar year.

Registered Office: All companies to have RO within 15 days of its incorporation and to furnish verification of its registered office within a period of 30 days of its incorporation.

REGISTRATION OF CHARGES (SEC 77 TO SEC 87):

● **DUTY TO REGISTER CHARGES:** As per Sec 77, it is the duty of the company to register any charge created on its property or assets, situated in or outside India, with the registrar of companies. The period of 300 days for creation and modification of charges under Section 77 has been reduced to 60 days i.e., 30 days of normal filing period and 30 days of additional fees.

The provision of seeking extension of time under Section 87 as per second proviso to section 77(1), is also modified, whereby a prohibitive ad valorem fees based on the amount of charge be levied for creation / modification of charge beyond 60 days but within 120 days.

Liquidator or any other creditor 'cannot take into account' any charge created by a company unless it is duly registered and a certificate of registration of such a charge is given by the ROC. However, the non-registration shall not prejudice any contract or obligation for the repayment of the money secured by a charge. Pledge is not expressly excluded by Section 77 but excluded in the form CHG.1.

● **CHARGE – HOLDER CREDITOR CAN APPROACH ROC:** If the company fails to register the charge within 30 days, the person in whose favour the charge is created may apply to the ROC for registration. The registrar may, within 14 days, allow such registration. Such creditor can recover from the company the sum of fees paid by him to ROC for registration.

● **MODIFICATION OF CHARGE:** As per Sec 79, any modification in the term and conditions or the extent or operation of a charge shall be registered as the charge registered in Sec 77.

● **REGISTER OF CHARGES:** As per Sec 81, ROC keeps a register of charges. It can be inspected by any person.

● **SATISFACTION OF CHARGE:** As per Sec 82, the Company shall intimate the ROC of the payment or satisfaction in full of any charge within 30 days from the date of such payment or satisfaction. Before registering the satisfaction, the ROC will send a notice to the holder of the charge asking him to show cause within 14 days, as to why the satisfaction should not be recorded. If no objection is raised by him a memorandum of satisfaction shall be entered in the register of charges under intimation to the company.

● **REGISTER OF CHARGES:** As per Sec 85, every Co shall keep at its registered office a register of charges which should contain all charges and floating charges affecting any property or assets of the Co. Any other person can also inspect it on payment of fees.

● **PUNISHMENT:** As per Sec 86, the company will be punished for any contravention of any provisions in the Chapter IV with a fine ranging between Rs.1 lakh and Rs.10 lakh; also, every officer of the company who is in default shall be punishable with imprisonment up to 6 months or with fine ranging between Rs.25,000 and Rs.1 lakh, or with both.

CALLABLE DEPOSIT

A Callable deposit (premature withdrawal permissible) can be closed before maturity at any point of time without penalty and the interest will be payable at the rate prevailing on the date of opening for the period that the deposit has run.

NON-CALLABLE DEPOSIT: A Non-callable deposit (premature withdrawal NOT permissible) (for a period of 46 days and above – other than Individual and HUF) cannot be closed before maturity and the Bank will offer additional interest rate above the rate as applicable to general Public for callable deposits.

COMPANIES (AMENDMENT) ACT, 2015

- The Companies (Amendment) Bill received the President's Assent on 25th May, 2015 and came as Companies (Amendment) Act, 2015.
- The new Companies Bill 2013, contains 470 sections and 7 schedules.

SECTION	EARLIER PROVISION	PROVISIONS AFTER AMENDMENT
2(68)	Private Company required Minimum Paid up capital of Rs.1 lac.	No requirement of Minimum Paid up capital.
2(71)	Public company required Minimum Paid up capital of Rs.5 lacs.	No requirement of Minimum Paid up capital.
9, 12 & 223	Affixation of common seal was mandatory.	Use of common seal is now optional.
11	Commencement of Business required.	Under the newly introduced Co's (Amendment) Ordinance 2018 all co's registered in India after the ordinance and having a share capital is required to obtain commencement of business certificate before commencing any business or exercising any borrowing powers. within a period of 180 days of the date of incorporation of the company with the Registrar of co's. Ins case of any default, the Co shall be liable to a penalty of Rs. 50000/- and every officer who is in default shall be liable to a penalty of Rs. 1,000/- for each day during which such default continues but not exceeding an amount of one lakh rupees.
46	A share certificate was issued under a common seal of the company.	Use of common seal is now optional. If company does not have a common seal then authorization by two directors or one director and one common seal is sufficient.
123(1)	No provision earlier.	No company shall declare dividend unless carried over previous losses and Depreciation are not provided in the previous year set off against profits of current year of company.

KNOW YOUR CUSTOMER (KYC)

KYC Guidelines have been issued by RBI under Section 35-A of Banking Regulation Act to check Money Laundering i.e., using of banking channel for conversion of illegal funds into legal funds and financial frauds.

● **Guidelines:** Based on recommendations of Financial Action Task Force (FATF) on Anti Money Laundering standards and on Combating Financing of Terrorism (CFT).

● **Four Pillars:** **(i)** Customer Acceptance Policy; **(ii)** Customer Identification Procedures; **(iii)** Monitoring of transactions; & **(iv)** Risk Management.

● **Customer Acceptance Policy:** Banks are required to verify the identity and address of the customers before opening of accounts to avoid fictitious / benami accounts.

● **Categorization of Customers:** Customers to be categorized into low, medium and high risk keeping in view risk perception, volume/ turnover, social & financial status etc.

● **Know Your Transactions:** Banks to monitor and keep record of high value cash transactions of above Rs.10 lac and send report of Cash transactions to Financial Intelligence Unit (FIU) at Finance Ministry. New Delhi). Cash transaction report (CTR) for each month to be sent by 15th of close of the month. Further banks not to accept cash receipt of Rs 50,000 and above for issue of DD, TT, MT, TC's.

● **Suspicious Transaction Report (STR):** The Suspicious Transaction Report (STR) should be furnished **within 7 days of arriving at a conclusion** that any transaction, whether cash or non-cash, or a series of transactions integrally connected are of suspicious nature.

● **Beneficial Owner (BO):**

a) Where the **customer is a company**, the beneficial owner is the natural person, who, whether acting alone or together, or through one or more juridical persons, has a controlling ownership interest or who exercise control through other means.

The threshold for "Controlling ownership interest" to determine BO has been revised to 10 percent for companies and trusts, down from the previous thresholds of 25 percent and 15 percent, respectively.

Exemptions from identifying BO include entities listed on Indian stock exchanges, entities resident in specific notified jurisdictions and listed on their stock exchanges, and subsidiaries of such listed entities.

b) Where the customer is a partnership firm, the beneficial owner is the natural person(s), who, whether acting alone or together, or through one or more juridical person, has/have ownership of/entitlement to more than 15% of capital or profits of the partnership.

c) Where the customer is an unincorporated association or body of individuals, the beneficial owner is the natural person, who, whether acting alone or together, or through one or more juridical person, has/have ownership of/entitlement to more than 15% of the property or capital or profits of the unincorporated association or body of individuals.

● **RBI Guidelines on AADHAAR:** RBI has added 'Proof of possession of Aadhaar number' to the list of Officially Valid Documents. For undertaking Customer Due Diligence, establishing an account-based relationship or while dealing with the individual who is a beneficial owner, REs shall obtain a certified copy of any OVD containing details of his identity and address; one recent photograph; the PAN or Form No. 60 as defined in Income-tax Rules, 1962, and such other documents pertaining to the nature of business or financial status specified by the REs in their KYC policy.

'Officially Valid Document' (OVD) means:

a) Passport;
b) The driving licence;
c) Proof of possession of Aadhaar number;
d) Voter's Identity Card issued by the Election Commission of India,
e) Job card issued by NREGA duly signed by an officer of the State Government; and
f) Letter issued by the National Population Register containing details of name and address.

● SMALL ACCOUNT:

A person not having the above documents can still open a bank a/c known as 'Small Account' by submitting his recent photograph and putting his signature or thumb impression in the presence of the bank official.

i) The 'Small Accounts' have following limitations:

a) Balance in such a/cs at any point of time should not exceed Rs.50,000/-.
b) Total credits in one year should not exceed Rs.1,00,000/-
c) Total withdrawal and transfers should not exceed Rs.10,000/- in a month.
d) Foreign remittances cannot be credited to such accounts.
ii) Such accounts remain operational initially for a period of 12 months and thereafter, for a further period of 12 months, if the holder of such an account provides evidence to the bank of having applied for any of the officially valid documents within twelve months of the opening of such account. The bank will review such account after 24 months to see if it requires such relaxation.

● **NORMAL ACCOUNT:** A normal account can be opened by submitting a copy of any one of the following documents:

a) Identity card with person's photograph issued by Central/State Govt., Statutory Authorities, PSUs, Banks, and Public Financial Institutions; **or**
b) Letter issued by a gazetted officer, with a duly attested photograph.

This, however, is not a general rule. It is left to the judgement of the banks to decide whether simplified procedure can be adopted for any customer.

● **Periodical Updation:** Banks are required to periodically update KYC records. This is a part of their ongoing due diligence on bank accounts. KYC is required to be done at least every two years for High Risk customer; at least every eight years for Medium Risk customer and every ten years for Low Risk customers.

This exercise would involve all formalities normally taken at the time of opening the account. In case of customers categorized in Low risk category by the bank, if there is no change in status with respect to the identity (change in name, etc.) and/or address, the customer may submit a self-certification to that effect at the time of periodic updation. In case of change of address of such 'low risk' customers, he could forward a certified copy of the document (proof of address) by mail / post, etc. Physical presence of such low risk customer is not required at the time of periodic updation.

● **Failure to Submit Documents for Periodical Updation:** If the customer do not provide his KYC documents at the time of periodic updation, bank has the option to close his account. Before closing the account, the bank may, however, impose 'partial freezing' (i.e. initially allowing all credits and disallowing all debits while giving an option to the customer to close the account and take his money back). Later even all credits also would not be allowed. The 'partial freezing', would be exercised by the bank after giving him due notice.

●**Partial Freezing**: Partial freezing is imposed in following ways:

a) While imposing 'partial freezing', banks has to give due notice of three months initially to the customers before exercising the option of 'partial freezing'.

b) After that a reminder for further period of 3 months would be issued. Thereafter, banks may impose 'partial freezing' by allowing all credits and disallowing all debits with the freedom to close the accounts.

c) If the a/cs are still KYC non-compliant after 6 months of imposing initial 'partial freezing,' banks may disallow all debits and credits from/to the a/cs, rendering them inoperative.

● **KYC POLICY- OVDs UNDER SIMPLIFIED MEASURES:**

To simplify the KYC Policy for the 'low risk' customers for the limited purpose of proof of address where customers are unable to produce any officially valid document (OVD), following additional documents are deemed to be OVDs under 'simplified measures'.

a) Utility bill which is **not more than two months old** of any service provider (electricity, telephone, postpaid mobile phone, piped gas, water bill);

b) Property or Municipal Tax receipt;

c) Bank account or Post Office savings bank account statement;

d) Pension or family pension payment orders (PPOs) issued to retired employees by Govt. Deptt. or PSU's, if they contain the address;

e) Letter of allotment of accommodation from employer issued by State or Central Government departments.

f) Documents issued by Government departments of foreign jurisdictions and letter issued by Foreign Embassy or Mission in India.

BASIC SAVINGS BANK DEPOSIT ACCOUNT (BSBDA)

The BSBD Account was designed as a Savings account which will offer certain minimum facilities, free of charge, to the holders of such accounts. The BSBD Account shall be considered a normal banking service.

➢ **Banks to offer the following basic minimum facilities in the BSBD Account, free of charge, without any requirement of minimum balance.**

a) The deposit of cash at bank branch as well as ATMs/CDMs.

b) Receipt / credit of money through any electronic channel or by means of deposit / collection of cheques drawn by Central/ State Govt. agencies.

c) No limit on number and value of deposits that can be made in a month.

d) Minimum of four withdrawals in a month, including ATM withdrawals.

e) ATM Card or ATM-cum-Debit Card.

➢ Banks are free to provide additional value-added services, including issue of cheque book, beyond the above minimum facilities, which may / may not be priced (in non-discriminatory manner) subject to disclosure. The availment of such additional services shall be at the option of the customers.

However, while offering such additional services, banks shall not require the customer to maintain a minimum balance.

➢ The holders of BSBD Account will not be eligible for opening any other savings bank deposit account in that bank. If a customer has any other existing savings bank deposit account in that bank, he will be required to close it within 30 days from the date of opening a BSBD Account. Further, before opening a BSBD account, a bank should take a declaration from the customer that he is not having a BSBD account in any other bank.

➢ The BSBD Account shall be subject to RBI instructions on KYC/AML.

The instructions issued on free transactions available for normal savings bank account in own-bank/other bank ATMs are not applicable to BSBD accounts. The minimum free withdrawals available to the BSBD Account holders can be made at all ATMs (own-bank/other bank ATMs).

RECENT CHANGES IN KYC GUIDELINES

● **Customer Due Diligence (CDD) for Certain Non-Individual Customers: For Co's**, names of relevant persons holding senior management positions, registered office, and principal place of business must be provided.

● **For Partnership firms**, names of all partners, address of the registered office, and principal place of business must be provided.

● **For Trusts,** information about beneficiaries, trustees, settlor, authors of the trust, and other specified documents must be provided.

● **Record Management**: Details of non-profit organizations must be registered in the DARPAN Portal of NITI Aayog. Records for non-profit organizations must be maintained for five years after the business relationship with the customer ends or the account is closed.

● **KYC Updation**: Aadhaar OTP based e-KYC is permitted for non-face to face mode of periodic updation, provided the mobile number for Aadhaar authentication matches the one in the customer's profile. Customers must submit updates of documents within 30 days of any changes for compliance.

● **"Shell Bank"**: A bank with no physical presence in the country - it is incorporated and licensed, unaffiliated with a regulated financial group subject to effective consolidated supervision.

● **Correspondent Banking:** Instructions regarding Correspondent banking have been aligned with international standards. Prior approval of the senior management be obtained for establishing new correspondent banking relationships.

● **Non-Face-to Face Customer Onboarding:** Current address verification through positive confirmation required before allowing account operations. PAN verification mandatory for customers, and high-risk categorization and enhanced monitoring for accounts opened in non-face to face mode until customer identity is verified.

● **Risk Categorization**: Expanded list of parameters for risk categorization includes geographical risk, product/service types, delivery channels, and transaction types. Banks must treat customer risk categorization and reasons as confidential.

● **Customer Due Diligence (CDD) of Individuals:** REs can obtain KYC Identifier with customer consent to download KYC records from CKYCR for CDD purposes.

● **Sole Proprietary Firms**: "Registration certificate" as a proof of business /activity includes "Udyam Registration Certificate issued by the Govt.

VIDEO-BASED CUSTOMER IDENTIFICATION PROCESS (V-CIP):

a) The RE must follow appropriate encryption standards and ensure end-to-end data encryption between customer device & hosting. The customer consent recording must be auditable and alteration-proof.

b) The V-CIP must be able to detect IP addresses from outside India or IP spoofing and prevent connection with the same.

c)The video recording should be geo-tagged (containing live GPS coordinates of the customer) and have a date-time stamp. The live video quality in the V-CIP must be clear enough for a doubtless identification of the customer. The Bank must create a clear workflow and standard operating procedure for V-CIP.

d) The sequence and/or the type of security questions (including those that indicate the liveness of the customer) during the video call should be varied to ensure real-time interaction and the absence of per-recording. On detection of any prompting at the customer's end, the RE must reject the account opening process.

e) Details about the customer undergoing V-CIP – like if they are new or existing, had been rejected before, or their name appears in some negative list – should be considered at an appropriate stage of the V-CIP workflow.

f) The official of the RE (one who is conducting the V-CIP) must record the audio-visual and capture a photograph of the customer during the video call for identification. Further, they must obtain identification information using any of the below ways:

- OTP-based Aadhaar e-KYC authentication;
- Offline Verification of Aadhaar for identification;
- KYC records downloaded from CKYCR;
- Equivalent e-document of OVDs including documents issued through Digilocker; RE must redact or blackout the Aadhaar number.

g) When verifying a customer using an offline Aadhaar XML file or Aadhaar Secure QR code, the RE shall ensure that the file or the QR code is not more than 3 days older from the date of conducting V-CIP. Further, in rare cases, if the entire process cannot be completed in one go, the RE shall also ensure that the V-CIP is undertaken within these 3 days after obtaining the identification information.

SIMPLIFIED GUIDELINES FOR PERIODIC UPDATION OF THE KYC (RE-KYC) process:

a) **Re-KYC when there is no information change:** Customers can do a re-KYC through a self-declaration when they have submitted valid documents, and there is no change in their KYC information.

b) **Re-KYC where there is a change in address:** Customers can furnish updated or revised addresses through non-face-to-face channels when there is only an address change. The banks must undertake the verification of the updated addresses within two months of submission of the revised address.

c) **Fresh KYC process:** Banks may be required to conduct a fresh KYC in some instances, such as when the KYC documents with the banks do not confirm the OVD's list or the validity of the submitted KYC document has expired. Customers can do fresh KYC by visiting a bank branch or remotely through a V-CIP. The list of officially valid documents for completion of bank KYC includes a passport, Aadhaar number, driving licence, voter's identity card, letter issued by the National Population Register and NREGA job card.

ANTI-MONEY LAUNDERING RULES, BRINGS 'POLITICALLY EXPOSED PERSONS' UNDER PMLA:

The government has made changes to the anti-money laundering law, requiring banks and financial institutions to record financial transactions of politically exposed persons (PEP). Additionally, they must collect information about financial transactions of non-profit organizations (NGOs) under the Prevention of Money Laundering Act (PMLA). The details of NGO clients should be registered on the Niti Aayog's Darpan portal and kept for five years after the business relationship ends or the account is closed. These records must be shared with the Enforcement Directorate upon request.

FINANCE MINISTRY TIGHTENS DEFINITION OF 'BENEFICIAL OWNERS' UNDER PMLA:

The Finance Ministry has made changes to the definition of beneficial owners under the anti-money laundering law. Reporting entities like banks and crypto platforms must now collect information from their clients about any individual or group holding 10 per cent ownership in the client's entity, compared to the previous threshold of 25 per cent. Reporting entities include banks, financial institutions, real estate and jewellery firms, intermediaries in casinos, and crypto/virtual digital asset firms. They are required to maintain KYC details, account files, and business correspondence of clients, and now, they must also collect details about clients' registered office address and principal place of business. Additionally, these entities must keep records of all transactions, including cash transactions of more than Rs 10 lakh.

CO's DIRECTORS, TRUSTEES OF AN EXPRESS TRUST, NOMINEE SHAREHOLDERS NOW IN THE AMBIT OF PMLA: The Finance Ministry has expanded the scope of reporting entities under the Prevention of Money Laundering Act (PMLA). Directors of a company, trustees of an express trust, and nominee shareholders of a company are now included as reporting entities for specific activities carried out in the course of business on behalf of or for another person. The five categories of activities covered include acting as a formation agent for companies and limited liability partnerships, holding positions like director or secretary, providing registered office or business addresses for entities, acting as trustees of express trusts, and acting as nominee shareholders. However, there are exemptions for certain activities, such as those related to lease agreements, employment, and specific professions like advocates, chartered accountants, cost accountants, and company secretaries. Intermediaries are also excluded from the newly notified categories.

IMPORTANT POINTS

- **Charges for submitting Life Certificate under Door Step Banking Services:** Rs.70 (including of GST/ CESS).
- **In case of a fraudulent digital banking transaction in BSBDA account, where there is no fault of account holder nor bank, bank have to refund the amount:** Shall credit (shadow reversal) the amount involved in the unauthorized electronic transaction to the customer's account within 10 working days from the date of such notification by the customer.
- **Relation between Bank and a customer, in case of articles left at Bank by the customer unknowingly:** Trustee and Beneficiary.

INTEGRATED OMBUDSMAN SCHEME, 2021

The **Reserve Bank - Integrated Ombudsman Scheme, 2021** has been launched which integrates the existing three Ombudsman schemes of RBI:

I) The Banking Ombudsman Scheme, 2006;

II) The Ombudsman Scheme for Non-Banking Financial Co's 2018; and

III) The Ombudsman Scheme for Digital Transactions, 2019.

➢ The Scheme, framed by the Reserve Bank is under Sec 35A of the Banking Regulation Act, 1949, Sec 45L of the RBI Act, 1934, and Sec 18 of the Payment and Settlement Systems Act, 2007, to provide cost-free redress of customer complaints involving deficiency in services.

➢ In addition to integrating the three existing schemes, the Scheme also includes under its ambit Non-Scheduled Primary Co-operative Banks with a deposit size of Rs.50 crore and above. RBI has also decided to bring Credit Information Companies (CICs) under the ambit of RB-IOS. The Scheme adopts **'One Nation One Ombudsman'** approach by making the RBI Ombudsman mechanism jurisdiction neutral.

● **Tenure:** The RBI may appoint one or more of its officers as Ombudsman and Deputy Ombudsman for a period not exceeding three years at a time.

● **Centralised Receipt & Processing Centre:**

➢ The RBI shall establish the Centralised Receipt and Processing Centre to receive the complaints filed under the Scheme and process them. The complaints under the Scheme made online shall be registered on the portal (https://cms.rbi.org.in). Complaints in electronic mode (E-mail) and physical form, including postal and hand-delivered complaints, shall be addressed and sent to the place where the Centralised Receipt and Processing Centre of the RBI.

● **Powers and Functions:**

➢ The Ombudsman/Deputy Ombudsman shall consider the complaints of customers of Regulated Entities relating to deficiency in service.

➢ There is **no limit on the amount in a dispute** that can be brought before the Ombudsman for which the Ombudsman can pass an Award. However, for any consequential loss suffered by the complainant, the Ombudsman shall have the power to provide a compensation up to **Rupees 20 lakh, in addition to, up to Rs. One lakh** for the loss of the complainant's time, expenses incurred and for harassment anguish suffered. While the Ombudsman shall have the power to address and close all complaints, the Deputy Ombudsman shall have the power to close those complaints.

➢ The Ombudsman shall send to the Deputy Governor, RBI, a report, as on March 31st every year, containing a general review of the activities of the office during the preceding financial year.

● **Grounds for non-maintainability of a Complaint**: **No complaint for deficiency in service shall lie under the Scheme in matters involving:**

a) Commercial judgment/commercial decision of a Regulated Entity;

b) A dispute between a vendor and a Regulated Entity relating to an outsourcing contract;

c) A grievance not addressed to the Ombudsman directly;

d) General grievances against Management or Executives of a RE;

e) A dispute involving the employee-employer relationship of a RE.

f) A dispute in which action is initiated by a Regulated Entity in compliance with the orders of a statutory or law enforcing authority.

A Complaint under the Scheme shall not lie unless:

(a) The complainant had, before making a complaint under the Scheme, made a written complaint to the Regulated Entity concerned, and

(i) The complaint was rejected wholly or partly by the RE, and the complainant is not satisfied with the reply; or the complainant had not received any reply within 30 days after the RE received the complaint; and

(ii) The complaint is made to the Ombudsman within one year after the complainant has received the reply from the RE to the complaint or, where no reply is received, within one year and 30 days from the date of the complaint.

(b) The complaint is not in respect of the same cause of action which is already:

(i) Pending before an Ombudsman or settled or dealt with on merits;

(ii) Pending before any Court, Tribunal or Arbitrator or any other Forum or Authority; or, settled or dealt with on merits, by any Court, Tribunal or Arbitrator or any other Forum or Authority;

(c) The complaint is not abusive or frivolous or vexatious in nature;

(d) The complaint to the RE was made before the expiry of the period of limitation prescribed under the Limitation Act, 1963, for such claims;

(e) The complaint is lodged by the complainant personally or through an authorised representative other than an advocate unless the advocate is the aggrieved person. A complaint in respect of the same cause of action does not include criminal proceedings pending or decided before a Court or Tribunal or any police investigation initiated in a criminal offence.

● **Resolution of Complaints**: The Ombudsman/Deputy Ombudsman shall endeavour to promote settlement of a complaint by agreement between the complainant and the Regulated Entity through facilitation or conciliation or mediation. The proceedings before the Ombudsman shall be summary in nature and shall not be bound by any rules of evidence.

➢ The RE shall, on receipt of the complaint, file its written version in reply to the averments in the complaint enclosing therewith copies of the documents relied upon, within 15 days before the Ombudsman for resolution.

➢ In case the RE omits or fails to file its written version and documents within the time, the Ombudsman may proceed ex-parte based on the evidence available on record and pass appropriate Order or issue an Award. There shall be no right of appeal to the RE in respect of the Award issued on account of non-response or non-furnishing of information sought within the stipulated time.

➢ If any amicable settlement of the complaint is arrived at between the parties, the same shall be recorded and signed by both the parties and thereafter, the fact of settlement may be recorded.

● **Award by the Ombudsman**:

➢ A copy of the Award shall be sent to the complainant and the Regulated Entity. The Award passed shall lapse and be of no effect unless the complainant furnishes a letter of acceptance of the Award in full and final settlement of the claim to the Regulated Entity concerned, **within a period of 30 days** from the date of receipt of the copy of the Award.

➢ The RE shall comply with the Award and intimate compliance to the Ombudsman **within 30 days** from the date of receipt of the letter of acceptance from the complainant, unless it has preferred an appeal.

●**Rejection of a Complaint**:

The Deputy Ombudsman or the Ombudsman may reject a complaint at any stage if:

a) In his opinion there is no deficiency in service; or the compensation sought for the consequential loss is beyond the power of the Ombudsman to award the compensation, or

b) The complaint is not pursued by the complainant with reasonable diligence; or

c) The complaint is without any sufficient cause; or

d) The complaint requires consideration of elaborate documentary and oral evidence and the proceedings before the Ombudsman are not appropriate for adjudication; or

e) In the opinion of the Ombudsman there is no financial loss or damage, or inconvenience caused to the complainant.

●**Appeal before the Appellate Authority (AA)**:

➢ The RE may, aggrieved by an Award or closure of a complaint within 30 days of the date of receipt of communication of Award or closure of the complaint, prefer an appeal before Executive Director Incharge of Consumer Education and Protection, Deptt of RBI - Appellate Authority (AA). The period of 30 days for filing an appeal shall commence from the date on which the RE receives the letter of acceptance of Award by the complainant:

➢ An appeal may be filed by a RE only with the previous sanction of the Chairman or the Managing Director / Chief Executive Officer or, in their absence, the Executive Director/Official of equal rank.

➢ The AA if satisfied that the RE had sufficient cause for not making the appeal within the time, may allow a further period not exceeding 30 days.

➢ The complainant may, aggrieved by an Award or rejection of a complaint, within 30 days of the date of receipt of the Award or rejection of the complaint, prefer an appeal before the Appellate Authority. The AA may, if satisfied that the complainant had sufficient cause for not making the appeal within the time, may allow a further period not exceeding 30 days.

●**Regulated Entity to Display Salient Features of the Scheme**:

➢ The Regulated Entity shall appoint a Principal Nodal Officer at their head office who shall not be a rank less than a GM or an officer of equivalent rank and shall be responsible for representing the bank for furnishing information in respect of complaints filed against the Regulated Entity.

PUBLIC SECTOR BANKS, ICAI TO SET UP COMMON PLATFORM FOR BALANCE CONFIRMATIONS

Over the years, auditors have been using "external confirmations" to obtain balance confirmations in respect of accounts receivables, accounts payables, bank balances, loans, investments or inventories held by third parties, etc. from various parties, including banks. To streamline the process, the proposed common platform for balance confirmation will be jointly owned by the Indian Banks' Association (IBA) and the Institute of Chartered Accountants of India (ICAI). It will initially cover only public sector banks but be later extended so as to cover private sector banks and financial institutions as well.

CONSUMER PROTECTION ACT (COPRA)

- CPA is three tiered quasi judicial mechanism implemented and is applicable throughout India. New provisions under COPRA 2019: Inclusion of E commerce, Direct selling.
- The New Act provides power to Central Govt. to establish Central Consumer Protection Authority (CCPA) to rights of Consumers, unfair trade practices and false or misleading advertisements, etc to promote protect and enforce the rights of Consumer as a class.
- **Limitation:** 2 years from cause of action.
- **Pecuniary Jurisdiction:**
  - **Distt. Forum : Up to Rs. 50 lakh.**
  - **State Commission : > Rs. 50 lakh upto Rs. 2 crore;**
  - **National Commission: > Rs. 2 crore.**
- **Appeal:** Any consumer who is aggrieved by the order of a commission can prefer an appeal:
  - Against order of the District Commission before the State Commission – within **45 days** from the date of order.
  - Against order of the State Commission before the National Commission – within **30 days** from the date of order.
  - Against order of the National Commission before the Supreme Court - within **30 days** from the date of order.

IMPORTANT POINTS

- FATCA (Foreign Account Tax Compliance Act of USA) requires foreign financial institutions to report about financial accounts held by U.S. taxpayers and foreign entities in which U.S. taxpayers hold a substantial ownership interest
- TDS on payment of transfer of immovable property other than agriculture land is @ 1 % for payment exceeding Rs.50,00,000/-
- Introduction of Section 194-N of Income Tax Act wherein TDS will be deducted on cash withdrawals over & above Rs.1 crore.
- TDS @ 2% on cash withdrawal w.e.f. 01-07-2020 in case of cash payments / withdrawals of more than Rs. 1 cr in a financial year from all accounts in a bank, the payer will have to deduct.
- W.E.F. 01-07-2020, if the assesses has not filed income tax return for the last three consecutive years TDS @ 2% will apply on the cumulative cash withdrawn from all accounts in a bank in a financial year exceeding Rs.20 lakh upto Rs. 1 crore.
- W.E.F. 01.07.2020, if the assesses has not filed income tax return for the last three consecutive years, TDS @ 5% will apply on the cumulative cash withdrawn from all accounts in a bank in a financial year exceeding Rs.1 crore.
- GST-E- WAY Bill is applicable for movement of goods with consignment value exceeding Rs. 50,000/- by any person registered with GST.
- Govt. has announced that the business with annual turnover upto Rs.40/- lakh are exempted from GST.
- Bulk deposit amount increased to Rs. 2 crore and above.
- A Codicil means an instrument made in relation to 'Will' and explaining, alerting or adding to its dispositions.
- Necessary records of transactions between the bank and customer to be preserved for at least 5 years from the date of transaction.

OPERATIONS IN DECEASED A/Cs

LINE OF ACTION AFTER RECEIVING THE INFORMATION OF DEATH
●**INDIVIDUAL**: In the event of the death of the a/c holder, the contractual relationship is terminated. Operations are stopped and balance amt be paid to nominee/ legal heirs.
●**JOINT ACCOUNT**: Operation in the a/c be stopped. In case of E/S and F/S, survivor be paid the balance amount. In case of joint operations, payment be made to the legal heirs of the deceased along with the survivor.
●**PARTNERSHIP FIRM:** **Credit Balance:** Operation in the a/c be stopped and after obtaining fresh mandate operation be allowed. **Debit Balance:** Operation be stopped and account ruled-off to avoid application of Clayton's Rule. Legal heirs of the deceased be advised of the outstanding liability. Firm be asked to submit fresh proposal and thereafter bank has to take credit decision as to whether to continue or to recall the facility.
●**TRUSTEE**: Trust a/c is a representative account. Cheques received after the death of trustee be paid. Further operation be allowed after verifying the trust deed / new trust deed.
●**ASSIGNEE OR RECEIVER**: Account of assignee / receiver are representative a/c. As such, cheques received after the death of assignee / receiver be paid. Further operation be allowed after obtaining fresh court orders.
●**LIQUIDATOR**: A/c of the liquidators are representative a/cs. As such, cheques received after the death of the liquidator be paid. Further operation be allowed after obtaining fresh court orders.
●**DIRECTOR IN A COMPANY**: Cheques received after the death of the director be paid. Further operations be allowed as per fresh board resolution.
●**EXECUTOR OR ADMINISTRATOR**: Account of executor or administrator are representative a/c. As such, cheques received after the death of the liquidator be paid. Further operation be allowed after obtaining fresh court orders.
●**AGENTS**: In the event of the death of the agent, cheques signed by the agent are paid as principal is alive. For all the acts of the agent, the principal is liable. However, in the event of the death of the principal, the agency stands terminated. As such all cheques signed by agent have to return.

GOODS & SERVICE TAX (GST)

● Goods and Service Tax has replaced the previous structure of multiple taxes levied by the state and central government w.e.f 1-7-17. It is a consumption based indirect tax which is charged on sale, mfg and consumption on goods and services at the national level.

● Exports and direct taxes like income tax, corporate tax and capital gain tax will not be affected by GST. It is a dual levy with State/Union territory GST and Central GST. Moreover, inter–state supplies would attract an Integrated GST, which would be the sum total of CGST and SGST / UTGST.

COMPONENTS OF GST:

- **Central GST or CGST** – To be charged by the Central Govt.
- **State GST or SGST** – To be charged by the State Government.
- **Integrated GST or IGST**– To be charged by Central Government on the inter-state supply of various goods and services.
- **Union Territory GST or UTGST** - To be applied to UTs on every Intra UT supply of goods and service in the union territories in absence of separate legislature.

TAX-RATE UNDER THE GST BILL: There is four-tier GST tax slabs - 5%; 12% to 18% and 28% for different goods and services.

GST 3-B RETURN AND PAYMENT: Form GSTR-3B is a simplified summary return and the purpose of the return is for taxpayers to declare their summary GST liabilities for a particular tax period. For monthly filers, due date for filing of Form GSTR-3B is 20th day of the month following the month (tax period) for which the return pertains . For quarterly filers, due date for filing of Form GSTR-3B, as notified for different States/UTs, is 22nd and 24th day of the month following the quarter for which the return pertains.

MONETARY LIMITS – SUMMARY

Payment of FDR including interest in cash	**Less than Rs. 20,000**
Encashment of ~~and~~ issue of Demand drafts and TTs / MTs	**Less than Rs. 50,000**
Issue of Foreign currency in cash	**Upto Rs. 50,000**
Maintenance of records of high value cash transactions.	**Rs. 10 lac and above**
Deduction of TDS on Term deposits. @10%	**Above Rs.40,000**
Payment of interest in Cash.	**Less than Rs. 10,000**
PAN / GIR quoting for Term deposit.	**Above Rs. 50,000**
Quoting of PAN for deposit of cash with bank.	**Rs. 50,000 or above**
Indo-Nepal Remittance scheme cash can be received from non account holder.	**Upto Rs 50,000**

TDS PROVISIONS

- **Legal Provisions:** Section 194-A of Income Tax Act.
- **Type & amount:** On Term Deposits including RD. Where interest paid / payable is **above** Rs. 40,000 (Sr Citizen above Rs. 50,000/-) in financial year @ 10% with PAN and 20% without PAN.
- **Tax Rates:** Residents 10%, Corporate 20% (No surcharge). If PAN number is not submitted then the TDS rate is 20%.
- **Minor Account:** To be clubbed with guardian.
- **Joint Account:** Deduction in the name of 1st account holder.
- **NRI Account:** TDS applicable only on NRO account.
- **TDS Certificate:** TDS certificate to be issued on Form No. 16-A quarterly basis within 15 days from the end of the month of the due date for furnishing the quarterly returns.
- **Exemption from Deduction:** Declaration on form No. 15-G. For Senior Citizen (60 years & above) the declaration is on Form No. 15-H. The bank has to retain the forms for 7 years.
- **Submission:** To IT Deptt. within 7 days of the following month and within two month if deduction is made on last day of the accounting year.
- **Payments to Contractors:** Where amt of single payment exceeds Rs.30,000 or total amount exceeds Rs.1 lac during financial year.
- **Rent payments:** Where amount exceeds Rs. 2.40 lac in a financial year.
- **Professional Fee:** Where payment exceeds Rs. 30,000 in a financial year.
- **Penalty:** Interest @ 1.5% p.m. Penalty: equal to amount of tax, Imprisonment 3 months to 7 years.

OTHER IMPORTANT ASPECTS

- **DDs FOR RS. 50,000/- & ABOVE:** RBI has reiterated that demand drafts, mail transfers, telegraphic transfers and traveller cheques for Rs. 50,000/- and above should be issued by banks only by debit to the customer's account or against cheques or other instruments tendered by the purchaser and not against cash payment.
- **CHEQUES / DDs / PAY ORDERS:** RBI has directed that banks should not make payment of cheques / drafts / pay orders/banker's cheques bearing that date or any subsequent date, if they are presented beyond the period of 3 months from the date of such instrument.
- **DDs FOR RS. 20,000/- & ABOVE:** As per IT Act banks advised to ensure that demand drafts of Rs. 20,000/- and above are issued with A/c payee crossing.
- **TIME DEPOSITS:** In case of Time deposits with a Banking Company, the PAN card is mandatory if deposit aggregating is more than Rs. 5 lacs during the year or single time deposit is more than Rs. 50,000/-
- **Banks not to make cash payments** of FDR plus interest of Rs 20,000 and above. If bank pays cash, penalty is equal to sum of cash so paid. (Sec. 269 -T). No imprisonment.
- **If PAN is not submitted** and interest on TD during financial year is more than Rs.40,000, (Rs. 50,000 for senior citizens) tax will be deducted at source @ 20% in case of all assesses.
- For cash purchase of bank draft exceeding Rs.50,000 on any one day requires PAN.

DECEASED CUSTOMERS - LEGAL TERMINOLOGY

WILL: When a person dies after leaving a Will he is said to have died Testate. Will is a legal declaration by testator in respect of his estate.
PROBATE: It is the certified copy of the Will issued by Distt. Courts under Sec. 289 of Indian Succession Act.
EXECUTOR: Person named in the Will of the deceased.
LETTER OF ADMINISTRATION: When a person dies Intestate, court issues letter of administration.
ADMINISTRATOR: Person appointed by the court to administer the estate of the deceased.
SUCCESSION CERTIFICATE: When a person dies Intestate, on the application of the legal heirs, Court issues succession certificate which applies to debts due to the deceased (i.e. Deposits and shares / securities).

PUBLIC PROVIDENT FUND (1963)

- It is operated through Public Sector Banks in addition to Post Offices. Minimum contribution Rs.500 & maximum Rs.1.5 lac, Tenor 15 yrs. Period can be extended by 5 years. (Max 12 installment in a year).
- Interest Rate on Loan: Will be two per cent p.a. more than the rate being paid instead of earlier rate of one per cent p.a.
- Interest Rate on Deposits: **7.1%** (For Qtr July – Sept. 2023)

SENIOR CITIZEN'S SAVING SCHEME – 2004

- **Operated Through:** Post Offices and Banks maintaining PPF accounts.
- **Age:** 60 years and above and in case of VRS / Super Annuation - 55 years and above.
- Retired Defence personnel excluding civilians: above 50 years of age and below 60 years of age.
- **Joint Account:** Allowed only with spouse. In case of a joint account, the age of the first applicant / depositor is the only factor to decide the eligibility to invest under the scheme. There is no age bar / limit for the second applicant / joint holder (i.e. spouse)
- **Nomination:** Available. NRIs can be nominees but on Non-repatriation basis
- **Investment:** Multiples of Rs 1000/-. Maximum amount of deposit – Rs. ~~15~~ 30 lac. No loan facility.
- **Tenor:** 5 years that can be extended by 3 years.
- **Interest Rate: 8.2% p.a.** (For July – September 2023) on simple basis, but payment is on quarterly basis.
- **TDS:** Applicable. No loan is allowed on the collateral security of the deposit.
- **Premature Closure:** With penalty after one year allowed. Penalty 1.5% for closure before 2 years and 1% after 2 years. Inter-deposit office transfers are permitted.
- HUF and NRIs are not allowed to invest in this scheme.

PRIORITY SECTOR

	COMMITTEE	RECOMMENDATIONS / GUIDELINES
1972	RBI - Informal Study Group	The concept of the Priority Sector (PS) was first formulated on the basis of the report submitted by the Informal Study Group
1974	-do-	Banks advised to raise the share to the level of $33^1/_3$% in their aggregate advances by March 1979.
1985	Krishnaswamy	Banks advised to achieve the target of Priority Sector lending at 40% by 1985. Sub-targets were also specified for lending to Agriculture and the Weaker Sections within the PS.
2007	C.S.Murthy	New Priority Sector guidelines - with effect from 30-April-2007.
2011	M.V. Nair	The guidelines were applicable w.e.f. 20-7-2012.
2015	Ms. Lily Vadera	Revised guidelines w.e.f. 23 April 2015.
2020	U.K. Sinha	Expert Committee on MSMEs
2020	M. K. Jain	'Internal Working Group to Review Agriculture Credit'

➢ **With an objective to harmonise various instructions issued to Commercial Banks, SFBs, RRBs, UCBs and LABs; align these guidelines with emerging national priorities and bring sharper focus on inclusive development, RBI has reviewed the PSL guidelines with the aim to encourage and support environment friendly lending policies to help achieve Sustainable Development Goals (SDGs).**

➢ **This review took into account the recommendations made by the 'Expert Committee on MSMEs (Chairman: Sh. U.K. Sinha) and the 'Internal Working Group to Review Agriculture Credit' (Chairman: Sh. M. K. Jain).**

●APPLICABILITY:

Commercial Bank [including Regional Rural Bank (RRB), Small Finance Bank, Local Area Bank] and Primary (Urban) Co-operative Bank (UCB) other than Salary Earners' Bank licensed to operate in India by the RBI.

I) CATEGORIES UNDER PRIORITY SECTOR:

a) Agriculture
b) Micro, Small & Medium Enterprises
c) Export Credit
d) Education
e) Housing
f) Social Infrastructure
g) Renewable Energy
h) Others

II) TARGETS / SUB-TARGETS FOR PRIORITY SECTOR:

CATEGORIES	DOMESTIC COMMERCIAL BANKS & FOREIGN BANKS WITH 20 B/Os & ABOVE	FOREIGN BANKS WITH LESS THAN 20 BRANCHES	REGIONAL RURAL BANKS	SMALL FINANCE BANKS
TOTAL PRIORITY SECTOR	**40%** of ANBC or CEOBE whichever is higher.	**40%** of ANBC or CEOBE whichever is higher; out of which up to 32% can be in the form of lending to Exports and not less than 8% can be to any other priority sector	**75%** of ANBC or CEOBE whichever is higher. However, lending to Medium Enterprises, Social Infrastructure & Renewable Energy shall be reckoned for Priority Sector achievement only up to 15% of ANBC.	**75%** of ANBC or CEOBE whichever is higher.
AGRICULTURE	**18%** of ANBC or CEOBE, whichever is higher; out of which a target of 10%# is prescribed for Small and Marginal Farmers.	Not applicable	**18%** ANBC or CEOBE, whichever is higher; out of which a target of 10%# is prescribed for SMFs.	**18%** of ANBC or CEOBE, whichever is higher; out of which a target of 10%# is prescribed for SMFs.
MICRO ENTERPRISES	**7.5%** of ANBC or CEOBE, whichever is higher.	Not applicable	**7.5%** of ANBC or CEOBE, whichever is higher.	**7.5%** of ANBC or CEOBE, whichever is higher.
WEAKER SECTIONS	**12%#** of ANBC or CEOBE, whichever is higher.	Not applicable	**15%** of ANBC or CEOBE, whichever is higher.	**12% #** of ANBC or CEOBE, whichever is higher.

 # REVISED TARGETS FOR AGRICULTURE AND SMFs WILL BE IMPLEMENTED IN A PHASED MANNER AS BELOW.

THE TARGETS FOR LENDING TO SMFS AND FOR WEAKER SECTIONS SHALL BE REVISED UPWARDS FROM FY 2021-22 ONWARDS AS FOLLOWS:

<table>
<tr><th>Categories</th><th colspan="5">PRIMARY URBAN CO-OPERATIVE BANK</th></tr>
<tr><td rowspan="3">Total Priority Sector</td><td colspan="5">40% of ANBC or CEOBE, whichever is higher, which shall stand increased to 75% of ANBC or CEOBE, whichever is higher, w.e.f March 31, 2024. UCBs shall comply with the stipulated target as per the following milestones:</td></tr>
<tr><td>Existing target</td><td>March 31, 2021</td><td>March 31, 2022</td><td>March 31, 2023</td><td>March 31, 2024</td></tr>
<tr><td>40%</td><td>45%</td><td>50%</td><td>60%</td><td>75%</td></tr>
<tr><td>Micro Enterprises</td><td colspan="5">7.5% of ANBC or CEOBE, whichever is higher.</td></tr>
<tr><td>Weaker Sections</td><td colspan="5">12% # of ANBC or CEOBE, whichever is higher.</td></tr>
</table>

REVISED TARGETS FOR BANKS - WEAKER SECTIONS WILL BE IMPLEMENTED IN A PHASED MANNER AS BELOW

Financial Year	Small and Marginal Farmers target*	Weaker Sections target^
2020-21	8%	10%
2021-22	9%	11
2022-23	9.5%	11.5%
2023-24	10%	12%

* Not applicable to UCBs.
^ Weaker Sections target for RRBs will continue to be 15% of ANBC or CEOBE, whichever is higher.

➢ All domestic banks (other than UCBs) and foreign banks with more than 20 branches to ensure that the overall lending to Non-Corporate Farmers (NCFs) does not fall below the system-wide average of the last three years' achievement which will be separately notified every year. The target for lending to the non-corporate farmers for FY 2021-22 was 12.73% and for 2022-23, it will be 13.78% of ANBC or CEOBE, whichever is higher. (erstwhile target for direct lending to agriculture sector).

DEFINITIONS/ CLARIFICATIONS:

➢ **Urban Co-operative Bank**' or 'UCB' means a Primary Co-operative Bank as defined in the Banking Regulation Act, 1949.

➢ **"On-lending"** means loans sanctioned by banks to eligible intermediaries for onward lending for creation of priority sector assets. The average maturity of priority sector assets thus created by the eligible intermediaries should be co-terminus with maturity of the bank loan.

➢ **Contingent liabilities/off-balance sheet items** do not form part of PS achievement. However, foreign banks with less than 20 branches have an option to reckon the CEOBE extended to borrowers for eligible PS activities for achievement of PS target, subject to the condition that the CEOBE (both priority sector and non-priority sector excluding interbank exposure) should be added to the ANBC in the denominator for computation of PSL targets.

➢ Off-balance sheet interbank exposures are excluded for computing CEOBE for the priority sector targets.

For the purpose of Priority Sector lending, ANBC denotes the outstanding Bank Credit in India and computed as follows:

Bank Credit in India [As prescribed in item No.VI of Form 'A' under Section 42(2) of the RBI Act, 1934]	I
Bills Rediscounted with RBI and other approved Financial Institutions	II
Net Bank Credit (NBC)*	**III (I-II)**
Outstanding Deposits under RIDF and other eligible funds with NABARD, NHB, SIDBI and MUDRA Ltd in lieu of non-achievement of priority sector lending targets/sub-targets + outstanding PSLCs	IV
Eligible amount for exemptions on issuance of long-term bonds for infrastructure and affordable housing.	V
Advances extended in India against the incremental FCNR (B)/NRE deposits, qualifying for exemption from CRR/SLR requirements, as per the Reserve Banks.	VI
Investments made by public sector banks in the Recapitalization Bonds floated by Government of India	VII
Other investments eligible to be treated as priority sector (e.g. investments in securitised assets)	VIII
Face Value of securities acquired and kept under HTM category under the TLTRO 2.0 and also Extended Regulatory Benefits under SLF-MF Scheme.	IX
Bonds/debentures in Non-SLR categories under HTM category	X
For UCBs: investments made after August 30, 2007 in permitted non SLR bonds held under 'Held to Maturity' (HTM) category	XI
ANBC (Other than UCBs) III + IV- (V+VI+VII) +VIII - IX + X	
ANBC for UCBs III + IV - VI - IX + XI	
* For the purpose of priority sector computation only. Banks should not deduct / net any amount like provisions, accrued interest, etc. from NBC.	

While calculating Net Bank Credit as above, if banks subtract prudential write-off at Corporate/Head Office level, then the credit to priority sector and all other sub-sectors so written-off should also be subtracted category wise from priority sector and sub-target achievement. Wherever, investments or any other items which are treated as eligible for classification under priority sector target / sub-target achievement, the same should also form part of Adjusted Net Bank Credit.

●ADJUSTMENTS FOR WEIGHTS IN PRIORITY SECTOR LENDING ACHIEVEMENT:

➢ To address regional disparities in the flow of priority sector credit at the district level, RBI has decided to rank districts on the basis of per capita credit flow to priority sector and build an incentive framework for districts with comparatively lower flow of credit and a dis-incentive framework for districts with comparatively higher flow of priority sector credit.

➢ Accordingly, from FY 2021-22 onwards, a higher weight (125%) would be assigned to the incremental priority sector credit in the identified districts where the credit flow is comparatively lower (per capita PSL less than Rs.6,000), and a lower weight (90%) would be assigned for incremental priority sector credit in the identified districts where the credit flow is comparatively higher (per capita PSL greater than Rs.25,000).

➢ The banks should continue to report the actual outstanding amount in QPSA returns. Adjustments for weights to incremental PSL credit will be done by RBI, based on reporting of district wise credit flow to FIDD, CO through the ADEPT database.

➢ RRBs, UCBs, LABs and foreign banks (including WoS) would be exempted from adjustments of weights in PSL achievement due to their currently limited area of operation/catering to a niche segment.

III) DESCRIPTION OF THE ELIGIBLE CATEGORIES UNDER PRIORITY SECTOR:

1) AGRICULTURE: The lending to agriculture sector will include:

a) **Farm Credit (Agriculture and Allied Activities),**
b) **Lending for Agriculture Infrastructure, and**
c) **Ancillary Activities.**

A) Farm Credit - Individual Farmers:

Loans to individual farmers [including Self Help Groups (SHGs) or Joint Liability Groups (JLGs) i.e. groups of individual farmers, provided banks maintain disaggregated data of such loans] and Proprietorship firms of farmers, directly engaged in Agriculture and Allied Activities, viz. dairy, fishery, animal husbandry, poultry, bee-keeping and sericulture. This will include:

a) Crop loans including loans for traditional/non-traditional plantations, horticulture and allied activities.
b) Medium and long term loans for agriculture and allied activities (e.g. purchase of agricultural implements and machinery and developmental loans for allied activities).
c) Loans for pre and post-harvest activities viz. spraying, harvesting, grading and transporting of their own farm produce.
d) Loans to distressed farmers indebted to non-institutional lenders.
e) Loans under the Kisan Credit Card Scheme.
f) Loans to small and marginal farmers for purchase of land for agricultural purposes.
g) Loans against pledge/hypothecation of agricultural produce (including warehouse receipt) for a period not exceeding 12 months subject to a limit up to Rs.50 lakh; Rs. 75 Lakh against NWRs/eNWRs for 12 months.
h) Loans to farmers for installation of stand-alone Solar Agriculture Pumps and for solarisation of grid connected Agriculture Pumps.
i) Loans to farmers for installation of solar power plants on barren/fallow land or in stilt fashion on agriculture land owned by farmer.

B) Farm Credit - Corporate farmers, Farmer Producer Organisations (FPOs) / (FPC) Companies of Individual Farmers, Partnership firms and Co-operatives of farmers engaged in Agriculture and Allied Activities:

a) Loans for the following activities will be subject to an aggregate limit of Rs.2 crore per borrowing entity:

I). Crop loans to farmers which will include traditional/non-traditional plantations and horticulture and loans for allied activities.

II). Medium and long-term loans for agriculture and allied activities (e.g. purchase of agricultural implements and machinery and developmental loans for allied activities).

III). Loans for pre and post-harvest activities viz. spraying, harvesting, grading and transporting of their own farm produce.

b) Loans up to Rs.50 lakh against pledge/hyp of agricultural produce (including warehouse receipts) for a period not exceeding 12 months.

c) RBI enhanced the loan limit from Rs.50 lakh to Rs.75 lakh per borrower against the pledge/hypothecation of agricultural produce backed by Negotiable Warehouse Receipts (NWRs)/electronic-NWRs(e-NWRs) issued by the warehouses registered and regulated by Warehousing Development and Regulatory Authority (WDRA) for 12 months.

d) Loans up to Rs.5 crore per borrowing entity to FPOs/FPCs undertaking farming with assured marketing of their produce at a pre-determined price.

e) UCBs are not permitted to lend to co-operatives of farmers.

II) **Agriculture Infrastructure**: Loans for agriculture infrastructure will be subject to an aggregate sanctioned limit of Rs.100 crore per borrower from the banking system.

III) **Ancillary Services:**

i. Loans up to Rs.5 crore to Co-operative societies of farmers for purchase of the produce of members (Not applicable to UCBs)

ii. Loans up to Rs.50 crore to Start-ups, as per definition of Ministry of Commerce and Industry, Govt. of India that are engaged in agriculture and allied services.

iii. Loans for Food and Agro-processing up to an aggregate sanctioned limit of Rs.100 crore per borrower from the banking system.

Outstanding deposits under RIDF and other eligible funds with NABARD on account of priority sector shortfall.

●SMALL AND MARGINAL FARMERS (SMFs):

For the purpose of computation of achievement of the sub-target, Small and Marginal Farmers will include the following:

a) Farmers with landholding of up to 1 hectare (Marginal Farmers).

b) Farmers with a landholding of more than 1 hectare and up to 2 hectares (Small Farmers).

c) Landless agricultural labourers, tenant farmers, oral lessees and share-croppers whose share of landholding is within the limits prescribed for SMFs.

d) Loans to Self Help Groups (SHGs) or Joint Liability Groups (JLGs), i.e. groups of individual SMFs directly engaged in Agriculture and Allied Activities, provided banks maintain disaggregated data of such loans.

e) Loans up to Rs.2 lakh to individuals solely engaged in Allied activities without any accompanying land holding criteria.

f) Loans to FPOs/FPC of individual farmers and co-operatives of farmers directly engaged in Agriculture and Allied Activities where the land-holding share of SMFs is not less than 75 per cent, subject to loan limits prescribed above. UCBs are not permitted to lend to co-operatives of farmers.

•LENDING BY BANKS TO NBFCS (OTHER MFIs) FOR ON-LENDING IN AGRICULTURE:

Bank credit to registered NBFCs (other than MFIs) for on-lending which are members of RBI recognized SRO for the sector, for on-lending to individuals and also to the members of SHGs / JLGs will be eligible for classification as priority sector under respective categories. Bank credit to registered NBFCs towards on-lending for 'Term lending' component under agriculture will be allowed upto Rs. 10 lakh per borrower.

2) MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs):

- To gear up MSME sector, Ministry of Micro, Small & Medium Enterprises has notified new definition and criterion for classifying MSME which will come into effect from 1st July, 2020. After 14 years since the MSME Development Act came into existence in 2006, a revision in MSME definition was announced in the Atmnirbhar Bharat package.

CLASSIFICATION OF ENTERPRISES:

- An enterprise shall be classified as a Micro, Small or Medium enterprise on the basis of the following criteria, namely:

a) A **Micro enterprise**, where the investment in plant and machinery or equipment **does not exceed one crore rupees and turnover does not exceed five crore rupees**;

b) A **Small enterprise**, where the investment in plant and machinery or equipment **does not exceed ten crore rupees and turnover does not exceed fifty crore rupees**; and

c) A **Medium enterprise**, where the investment in plant and machinery or equipment **does not exceed fifty crore rupees and turnover does not exceed two hundred and fifty crore rupees.**

COMPOSITE CRITERIA OF INVESTMENT AND TURNOVER FOR CLASSIFICATION:

a) A composite criterion of investment and turnover shall apply for classification of an enterprise as micro, small or medium.

b) If an enterprise crosses the ceiling limits specified for its present category in either of the two criteria of investment or turnover, it will cease to exist in that category and be placed in the next higher category but no enterprise shall be placed in the lower category unless it goes below the ceiling limits specified for its present category in both the criteria of investment as well as turnover.

c) All units with Goods and Services Tax Identification Number (GSTIN) listed against the same PAN shall be collectively treated as one enterprise and the turnover and investment figures for all of such entities shall be seen together and only the aggregate values will be considered for deciding the category as micro, small or medium enterprise.

CALCULATION OF INVESTMENT IN P & M OR EQUIPMENT:

a) The calculation of investment in plant and machinery or equipment will be linked to the Income Tax Return (ITR) of the previous years.

b) In case of a new enterprise, where no prior ITR is available, the investment will be based on self-declaration of the promoter of the enterprise and such relaxation shall end after the 31st March of the financial year in which it files its first ITR.

c) The expression "plant and machinery or equipment" of the enterprise, shall have the same meaning as assigned to the plant and machinery in the Income Tax Rules, 1962 framed under the Income Tax Act, 1961 and shall include all tangible assets (other than land and building, furniture and fittings).
d) The purchase (invoice) value of a plant and machinery or equipment, whether purchased first hand or second hand, shall be taken into account excluding Goods and Services Tax (GST), on self-disclosure basis, if the enterprise is a new one without any ITR.
e) The cost of certain items specified in the extant guidelines shall be excluded from the calculation of the amount of investment in plant and machinery.

CALCULATION OF TURNOVER:

a) Exports of goods or services or both, shall be excluded while calculating the turnover of any enterprise whether micro, small or medium, for the purposes of classification.
b) Information as regards turnover and exports turnover for an enterprise shall be linked to the Income Tax Act or the Central Goods and Services Act (CGST Act) and the GSTIN.
c) The turnover related figures of such enterprise which do not have PAN will be considered on self-declaration basis for a period up to 31st March, 2021 and thereafter, PAN and GSTIN shall be mandatory.
d) In case of an upward change in terms of investment in plant and machinery or equipment or turnover or both, and consequent re-classification, an enterprise will maintain its prevailing status till expiry of one year from the close of the year of registration.
e) In case of reverse-graduation of an enterprise, whether as a result of re-classification or due to actual changes in investment in plant and machinery or equipment or turnover or both, and whether the enterprise is registered under the Act or not, the enterprise will continue in its present category till the closure of the financial year and it will be given the benefit of the changed status only with effect from 1st April of the financial year following the year in which such change took place.
f) As part of new definition, Exports will not be counted in turnover for any enterprises whether micro, small or medium. As per the new composite formula of classification MSME, there will be no difference between the manufacturing and service sectors.

FACTORING TRANSACTIONS (not applicable to RRBs and UCBs):

a) 'With Recourse' Factoring transactions by banks which carry out the business of factoring departmentally wherever the 'assignor' is a Micro, Small or Medium Enterprise would be eligible for classification under MSME category on the reporting dates.
b) The borrower's bank shall obtain from the borrower, periodical certificates regarding factored receivables to avoid double financing/ counting. Further, the 'factors' must intimate the limits sanctioned to the borrower and details of debts factored to the banks concerned, taking responsibility to avoid double financing.
c) Factoring transactions pertaining to MSMEs taking place through the Trade Receivables Discounting System (TReDS) shall also be eligible for classification under priority sector.

KHADI AND VILLAGE INDUSTRIES SECTOR (KVI):

All loans to units in the KVI sector will be eligible for classification under the sub-target of **7.5 percent** prescribed for Micro Enterprises under priority sector.

OTHER FINANCE TO MSMEs:

a) Loans up to **Rs.50 crore** to Start-ups, as per definition of Ministry of Commerce and Industry, that confirm to the definition of MSME.

b) Loans to entities involved in assisting the decentralized sector in the supply of inputs and marketing of output of artisans, village and cottage industries. In respect of UCBs, the term "entities" shall not include institutions to which UCBs are not permitted to lend under the RBI guidelines / the legal framework governing their functioning.

c) Loans to co-operatives of producers in the decentralized sector viz. artisans, village and cottage industries (UCBs not applicable)

d) Loans sanctioned by banks to NBFC-MFIs and other MFIs (Societies, Trusts etc.) which are members of RBI recognised SRO for the sector for on-lending to MSME sector. (not applicable to RRBs, SFBs and UCBs)

e) Loans to registered NBFCs (other than MFIs) for on-lending to Micro & Small Enterprises. (not applicable to RRBs/SFBs / UCBs).

f) Credit outstanding under General Credit Cards (including Artisan Credit Card, Laghu Udyami Card, Swarojgar Credit Card and Weaver's Card etc. in existence and catering to the non-farm entrepreneurial credit needs of individuals).

g) Overdraft to Pradhan Mantri Jan-Dhan Yojana (PMJDY) account holders as per limits and conditions prescribed by Deptt. of Financial Services, Ministry of Finance from time to time, will qualify as achievement of the target for lending to Micro Enterprises.

h) Outstanding deposits with SIDBI and MUDRA Ltd. on account of priority sector shortfall.

3) EXPORT CREDIT (not applicable to RRBs and LABs):

Export credit under agriculture and MSME sectors are allowed to be classified as PSL in the respective categories viz. agriculture and MSME. Export Credit (other than in agriculture and MSME) will be allowed to be classified as priority sector as per the following table:

DOMESTIC BANKS / WOS OF FOREIGN BANKS/ SFBs/ UCBs	FOREIGN BANKS WITH 20 BRANCHES AND ABOVE	FOREIGN BANKS WITH LESS THAN 20 BRANCHES
Incremental export credit over corresponding date of the preceding year, **up to 2%** of ANBC or CEOBE whichever is higher, subject to a sanctioned limit of up to **Rs.40 crore** per borrower.	Incremental export credit over corresponding date of the preceding year, up to **2%** of ANBC or CEOBE whichever is higher.	Export credit up to **32%** of ANBC or CEOBE whichever is higher.

Export credit includes pre-shipment and post-shipment export credit (excluding off-balance sheet items).

4) EDUCATION: Loans to individuals for educational purposes, including vocational courses, not exceeding **Rs. 20 lakh** will be considered as eligible for priority sector classification. Loans currently classified as priority sector will continue till maturity.

5) HOUSING:

a) Loans to individuals up to **Rs.35 lakh** in metropolitan centres (with population of ten lakh and above) and up to **Rs.25 lakh** in other centres for purchase/construction of a dwelling unit per family provided the overall cost of the dwelling unit in the metropolitan centre and at other centres **does not exceed Rs.45 lakh and Rs.30 lakh respectively.** Existing individual housing loans of UCBs presently classified under PSL will continue as PSL till maturity or repayment.

b) Housing loans to banks' own employees will not be eligible for classification under the priority sector.

c) Since Housing loans which are backed by long term bonds are exempted from ANBC, banks should not classify such loans under priority sector. Investments made by UCBs in bonds issued by NHB / HUDCO on or after April 1, 2007 shall not be eligible for classification under PS.

d) Loans up to Rs.10 lakh in metropolitan centres and up to Rs.6 lakh in other centres for repairs to damaged dwelling units.

e) Bank loans to any governmental agency for construction of dwelling units or for slum clearance and rehabilitation of slum dwellers subject to dwelling units with carpet area of **not more than 60 sq.mtrs.**

f) Bank loans for affordable housing projects using at least 50% of FAR/FSI for dwelling units with carpet area of **not more than 60 square meters.**

g) Bank loans to HFCs (approved by NHB for their refinance) for on-lending, up to **Rs.20 lakh** for individual borrowers, for purchase/construction/ reconstruction of individual dwelling units or for slum clearance and rehabilitation of slum dwellers.

h) Outstanding deposits with NHB on account of priority sector shortfall.

6) SOCIAL INFRASTRUCTURE:

Bank loans to social infrastructure sector as per limits prescribed below are eligible for priority sector classification.

a) Bank loans up to a limit of **Rs.5 crore** per borrower for setting up schools, drinking water facilities and sanitation facilities including construction/ refurbishment of household toilets and water improvements at household level, etc. and loans up to a limit of **Rs.10 crore** per borrower for building health care facilities including under 'Ayushman Bharat' in Tier II to Tier VI centres. In case of UCBs, the above limits are applicable only in centres having a population of less than one lakh.

b) Bank loans to MFIs extended for on-lending to individuals and also to members of SHGs/JLGs for water and sanitation facilities. (not applicable to RRBs, UCBs and SFBs).

7) RENEWABLE ENERGY: Bank loans up to a limit of **Rs.30 crore** to borrowers for purposes like solar based power generators, biomass-based power generators, wind mills, micro-hydel plants and for non-conventional energy based public utilities, viz., street lighting systems and remote village electrification etc., will be eligible for Priority Sector classification. For individual households, the loan limit will be **Rs.10 lakh per borrower.**

8) OTHERS:

a) Loans provided directly by banks to individuals and individual members of SHG/JLG satisfying the prescribed criteria.

b) Loan not exceeding **Rs. 2 Lacs** provided by banks to SHG/JLG for activities other than agriculture or MSME, viz, loan for meeting social needs, construction or repair of house, construction of toilets or any viable, common activity started by SHGs.

c) Loans to distress persons [other than distressed farmers indebted to non-institutional lenders] not exceeding **Rs.1.00 lakh** per borrower to prepay their debt to non-institutional lenders.

d) Loans sanctioned to State Sponsored Organisations for SC / ST for the specific purpose of purchase and supply of inputs and/or the marketing of the outputs of the beneficiaries of these organisations.

e) Loans up to **Rs.50 crore** to Start-ups, as per definition of Ministry of Commerce and Industry, Govt. of India that are engaged in activities other than Agriculture or MSME.

9) WEAKER SECTIONS:

Priority sector loans to the following borrowers will be considered as lending under Weaker Sections category:

(i)	Small and Marginal Farmers
(ii)	Artisans, village and cottage industries where individual credit limits do not exceed **Rs.1 lakh**
(iii)	Beneficiaries under Government Sponsored Schemes such as National Rural Livelihood Mission (NRLM), National Urban Livelihood Mission (NULM) and Self Employment Scheme for Rehabilitation of Manual Scavengers (SRMS)
(iv)	Scheduled Castes and Scheduled Tribes
(v)	Beneficiaries of Differential Rate of Interest (DRI) scheme
(vi)	Self Help Groups
(vii)	Distressed farmers indebted to non-institutional lenders
(viii)	Distressed persons other than farmers, with loan amount not exceeding **Rs.1 lakh** per borrower to prepay their debt to non-institutional lenders
(ix)	Individual women beneficiaries up to **Rs.1 lakh** per borrower (For UCBs, existing loans to women will continue to be classified under weaker sections till their maturity/repayment.)
(x)	Persons with disabilities
(xi)	Minority communities as may be notified by Government of India from time to time.

Overdraft availed by PMJDY account holders as per limits and conditions prescribed by Department of Financial Services, Ministry of Finance may be classified under Weaker Sections.

States, where one of the minority communities notified is, in fact, in majority, item (xi) will cover only the other notified minorities. These States/ UT, are Punjab, Meghalaya, Mizoram, Nagaland, Lakshadweep and Jammu & Kashmir.

MISCELLANEOUS

A) INVESTMENTS BY BANKS IN SECURITISED ASSETS (NOT APPLICABLE TO RRBs AND UCBs):

Investments by banks in 'securitised assets', representing loans to various categories of priority sector, except 'others' category, are eligible for classification under respective categories of priority sector depending on the underlying assets provided:

a) The assets are originated by banks and financial institutions and are eligible to be classified as priority sector advances prior to securitisation and fulfil the Reserve Bank of India guidelines on securitization.

b) The all-inclusive interest charged to the ultimate borrower by the originating entity should not exceed the **investing banks MCLR plus 10% or EBLR plus 14%.**

c) The investments in securitised assets originated by MFIs are exempted from this interest cap as there are separate caps on margin and interest rate for MFIs.

d) Purchase/ assignment/investment transactions undertaken by banks with NBFCs, where the underlying assets are loans against gold jewellery, are not eligible for priority sector status.

B) TRANSFER OF ASSETS THROUGH DIRECT ASSIGNMENT /OUTRIGHT PURCHASE (NOT APPLICABLE TO RRBS AND UCBS):

Assignment/outright purchase of pool of assets by banks representing loans under various categories of priority sector, except the 'others' category, will be eligible for classification under respective categories of priority sector provided:

a) The assets are originated by banks and financial institutions which are eligible to be classified as priority sector advances prior to the purchase and fulfil the RBI guidelines on outright purchase/assignment.

b) The all-inclusive interest charged to the ultimate borrower by the originating entity should not exceed the **originating banks MCLR plus 10% or EBLR plus 14%.**

c) The Assignments/Outright purchases of eligible priority sector loans from MFIs, are exempted from this interest rate cap as there are separate caps on margin and interest rate for MFIs.

d) When the bank undertakes outright purchase of loan assets (eligible to be classified under priority sector) from banks/ financial institutions, they must report the outstanding amount actually disbursed to priority sector borrowers and not the premium embedded amount paid to the seller.

e) Purchase/ assignment/ investment transactions undertaken by banks with NBFCs, where the underlying assets are loans against gold jewellery, are not eligible for priority sector status.

C) INTER BANK PARTICIPATION CERTIFICATES (IBPCs) (NOT APPLICABLE TO UCBs):

a) IBPCs bought by banks, on a risk sharing basis, are eligible for classification under respective categories of priority sector, provided the underlying assets are eligible to be categorized under the respective categories of priority sector and the banks fulfil the RBI guidelines on IBPCs.

b) IBPCs bought by banks on risk sharing basis relating to 'Export Credit', may be classified from purchasing bank's perspective for priority sector categorization. However, in such a scenario, the issuing bank shall certify that the underlying asset is 'Export Credit', in addition to the due diligence required to be undertaken by the issuing and the purchasing bank as per guidelines in this regard.

c) RRBs are allowed to issue Inter Bank Participation Certificates (IBPCs) to Scheduled Commercial Banks in respect of their priority sector advances in excess of 75 per cent of their outstanding advances.

D) PRIORITY SECTOR LENDING CERTIFICATES (PSLCs):

The outstanding PSLCs bought by banks will be eligible for classification under respective categories of priority sector provided the underlying assets originated by banks are eligible to be classified as priority sector advances and fulfil the RBI guidelines on Priority Sector Lending Certificates on credit risk transfer and portfolio sales/purchases.

E) BANK LOANS TO NBFCs (OTHER THAN MFIs) FOR ON-LENDING:

Bank credit to registered NBFCs (other than MFIs) for on-lending:

a) **Agriculture:** On-lending for 'Term lending' component under agriculture will be allowed upto Rs. 10 lakh per borrower.

b) **Micro & Small Enterprises:** On-lending by NBFCs will be allowed upto **Rs. 20 lakh per borrower.** However, loans disbursed under the on-lending model will continue to be classified till the date of maturity/repayment.

G) BANK LOANS TO HFCs FOR ON-LENDING:

Bank credit to Housing Finance Companies (HFCs), (not applicable to RRBs, SFBs and LABs) approved by NHB for their refinance, for on-lending for the purpose of purchase/construction/ reconstruction of individual dwelling units or for slum clearance and rehabilitation of slum dwellers, subject to an aggregate loan limit of **Rs.20 lakh per borrower.**

Cap on On-lending: Bank credit to NBFCs (including HFCs) for on-lending, will be allowed up to an **overall limit of five percent of individual bank's total priority sector lending.** Banks shall compute the eligible portfolio under on-lending mechanism by averaging across four quarters, to determine adherence to the prescribed cap.

H) CO-LENDING MODEL - LOANS BY BANKS AND NBFCS FOR LENDING TO PRIORITY SECTOR (NOT APPLICABLE TO RRBS, UCBS, SFBS AND LABS):

All commercial banks may engage with NBFCs-ND-SI (hereinafter referred to as NBFC) to co-originate loans for the creation of priority sector assets. The arrangement should entail joint contribution of credit at the facility level, by both lenders. It should also involve sharing of risks and rewards between the bank and the NBFC for ensuring appropriate alignment of respective business objectives, as per the mutually decided agreement between the bank and the NBFC.

I) MONITORING OF PRIORITY SECTOR LENDING TARGETS:

To ensure continuous flow of credit to priority sector, the compliance of banks will be monitored on **'quarterly' basis.** The data on priority sector advances is required to be furnished by banks to Financial Inclusion Devl. Deptt on **quarterly and annual intervals within 15 days and one month respectively from the date of ending of each Qtr & financial year.**

In respect of RRBs, the data on priority sector advances, in the above format, must be furnished to NABARD at **quarterly and annual intervals.** In respect of UCBs, the data on priority sector advances in the reporting formats shall be furnished at **quarterly and annual intervals**, to the Regional Office of DoS, RBI.

J) NON-ACHIEVEMENT OF PRIORITY SECTOR TARGETS:

a) Banks having any shortfall in lending to priority sector shall be allocated amounts for contribution to the Rural Infrastructure Development Fund (RIDF) established with NABARD and other funds with NABARD/NHB/SIDBI/ MUDRA Ltd.

b) With effect from March 31, 2023, all UCBs (excluding those under all-inclusive directions) will be required to contribute to RIDF established with NABARD and other funds with NABARD / NHB / SIDBI / MUDRA Ltd., against their priority sector lending (PSL) shortfall vis-à-vis the prescribed target.

c) While computing priority sector target achievement, shortfall / excess lending for each quarter will be monitored separately. A simple average of all quarters will be arrived at and considered for computation of overall shortfall / excess at the end of the year. The same method will be followed for calculating the achievement of priority sector sub-targets.

d) The interest rates on banks' contribution to RIDF or any other funds, tenure of deposits, etc. shall be fixed by RBI from time to time.

e) The mis-classifications reported by the RBI, (NABARD in respect of RRBs) would be adjusted/ reduced from the achievement of that year, to which the amount of misclassification pertains.

f) Non-achievement of P.S. targets and sub-targets will be taken into account while granting regulatory clearances/approvals.

K) COMMON GUIDELINES FOR PRIORITY SECTOR LOANS:

a) **Rate of Interest:** The rates of interest on bank loans will be as per directives issued by Deptt. of Regulation, RBI from time to time.

b) **Service charges:** No loan related and ad hoc service charges/inspection charges should be levied on P.S.loans up to **Rs.25,000.** In the case of eligible priority sector loans to SHGs/ JLGs, this limit will be applicable per member and not to the group as a whole.

c) **Receipt, Sanction/Rejection/Disbursement Register:** A register/ electronic record should be maintained by the bank wherein the date of receipt, sanction/rejection/disbursement with reasons thereof, etc. should be recorded and made available to all inspecting agencies.

d) **Issue of acknowledgement of loan applications:**

Banks should provide acknowledgement for loan applications received under priority sector loans. Bank Boards should prescribe a time limit within which the bank communicates its decision in writing to the applicants.

PRIORITY SECTOR LENDING CERTIFICATES (PSLC)

a) **Purpose:** To enable banks to achieve the priority sector lending target and sub-targets by purchase of these instruments in the event of shortfall and at the same time incentivize the surplus banks; thereby enhancing lending to the categories under priority sector.

b) **Nature of the Instruments:** The seller will be selling fulfillment of PS obligation and the buyer would be buying the same. There will be no transfer of risks or loan assets.

c) **Modalities:** The PSLCs will be traded through the CBS portal (e-Kuber) of RBI and the standard lot size of Rs. 25 lakh & multiples thereof.

d) **Sellers / Buyers:** Banks, RRBs, LABs, Small Finance Banks and UCBs who have originated PSL eligible category loans.

e) **Types of PSLCs:** There would be four kinds of PSLCs :

i) **PSLC Agriculture:** Counting for achievement towards the total agriculture lending target.

ii) **PSLC SF/MF:** Counting for achievement towards the sub-target for lending to Small and Marginal Farmers.

iii) **PSLC Micro Enterprises:** Counting for achievement towards the sub target for lending to Micro Enterprises.

iv) **PSLC General:** Counting for achievement towards the overall priority sector target.

f) **Computation of PSL Achievement:** A bank's PSL achievement would be computed as the sum of outstanding PS loans, and the net nominal value of the PSLCs issued and purchased. Such computation will be done separately where sub targets are prescribed.

g) **Amount eligible for issue:** Normally PSLCs will be issued against the underlying assets. However, a bank is permitted to issue PSLCs **upto 50% of previous year's** PSL achievement without having the underlying in its books. However, as on the reporting date, the bank must have met the priority sector target by way of the sum of outstanding priority sector lending portfolio and net of PSLCs issued and purchased. To the extent of shortfall in the achievement of target, banks may invest in RIDF/other funds.

h) **Lot Size:** The PSLCs would have a

Credit Guarantee Schemes of National Credit Guarantee Trustee Company Ltd.

a) **Credit Guarantee Fund for Skill Development (CGFSD):** Confined to guaranteeing skill development loans sanctioned by member banks of IBA or other banks/FIs. Guarantee Cover for Educational Loan upto Rs. 1.5 Lacs, Minimum loan Rs. 5,000/-.

b) **Credit Guarantee Fund Scheme for Education Loan (CGFSEL):** Confined to guaranteeing Educational Loans sanctioned by Member Banks of Indian Banks Association (IBA) or other Banks / Financial Institutions. All Education Loan . (Both inland and for foreign study) for limit upto Rs. 7.5 Lacs under IBA model Education Loan scheme without collateral and Third party Guarantee.

COLLATERAL SECURITY NORMS

a) AGRICULTURE	No margin & no collateral upto Rs. 1,60,000
b) AGRI-CLINIC & AGRI-BUSINESS CENTRES	No margin & no collateral upto Rs. 5 lac.
c) SMALL ENTERPRISES (SSI) ● Normal accounts ● Good track record units ● A/cs covered under CGTMSE	No Collateral Upto Rs. 10 lac Upto Rs. 25 lac Upto Rs. 2 cr (fund based & non fund based)
e)EDUCATION LOAN f) PMEGP g) NRLM	No margin or collateral or guarantor upto Rs 4 lakhs, Above Rs. 4 lakhs margin & guarantor can be taken but no collateral. Above Rs. 7.50 lac collateral can also be taken. No collateral upto Rs. 10 lac No collateral upto Rs. 20 lac

HI-TECH AGRICULTURE CONCEPTS

- **Apiculture:** Rearing of honey bees.
- **Aquaculture:** Shrimp farming, fish production in artificial tanks / lakes.
- **Apriculture:** Cultivation of mushroom.
- **Blue revolution:** Pisciculture.
- **Floriculture:** Flower production.
- **Green revolution:** Targeted to increase Agricultural production.
- **Operation flood (white revolution):** Increase Milk production.
- **Olericulture:** Vegetable cultivation.
- **Mulberry:** Associated with Sericulture.
- **Pisciculture:** Rearing / breeding of fish or fish farming.
- **Rainbow Revolution:** Connected with flowers.
- **Sericulture:** Silk production.
- **Tissues Culture:** Aims at multiplication & improvement of plant varieties.
- **Vermiculture:** Rearing of earth worm.
- **Yellow Revolution:** Associated with Oil Seeds and pulses.
- **Red Revolution:** Meat Production.
- **Black Revolution:** Rubber.
- **Brown Revolution:** Cocoa.
- **Plastic Culture:** Use of Plastic in farming.
- **Sylviculture:** Cultivation of Trees.

MICRO FINANCE INSTITUTION (NBFC-MFI):

- Based on the recommendations of Malegam committee, RBI created a separate category of Non-Banking Financial Company-Micro Finance Institution (NBFC-MFI). RBI has revised the criteria as under:

a) Increase the household income limit for borrowers of NBFC-MFIs for urban/semi urban areas to Rs. 1.25 lakh and Rs. 2.00 lakh, respectively.

b) Raise the lending limit to Rs.1.25 lakh per eligible borrower.

c) The minimum requirement of qualifying assets / Micro finance loans for NBFC- MFIs stands revised to 75% of the total assets.

CO-LENDING MODEL

- The Reserve Bank of India has permitted Co-Lending Model (**earlier Co-origination of loans**) by banks and non-deposit taking non-banking financial companies (NBFCs) in the priority sector with the basic aim at leveraging the reach of NBFCs to help banks meet their priority sector lending targets, leveraging the reach of NBFCs. The co-origination arrangement entails ""joint contribution of credit by both lenders" and also involve "sharing of risks and rewards between banks and NBFCs".
- All Scheduled commercial Banks (excluding RRBs and Small Finance Banks) may engage with Non-Banking Financial Companies – non-Deposit taking – Systemically important (NBFC-ND-SIs) to co-originate loans for the creation of priority sector assets.
- The Bank can claim priority sector status in respect of its share of credit while engaging in the co-origination arrangement. However, the priority sector assets on the bank's books should at all times be without recourse to the NBFC.
- **SHARING OF RISK AND REWARDS:** As per RBI guidelines, banks are permitted to co-lend with all registered NBFCs (including HFCs) based on a prior agreement. The co-lending banks will take their share of the individual loans on a back-to-back basis in their books. However, NBFCs shall be required to retain a **minimum of 20 per cent** share of the individual loans on their books till maturity and the balance will be on bank's books. The NBFC shall give an undertaking to the bank that its contribution towards the loan amount is not funded out of borrowing from the co-originating bank or any other group company of the partner bank.

Annual Guarantee Fee under Co-Lending (CGSL):

- Under Credit Guarantee Scheme for **Co-Lending (CGSCL)**, CGTMSE has announced to bring the Annual Guarantee Fee for CGSCL at par with the rates charged to the banks under CGS-I.

Revised Standard Rate:

Upto Rs. 10 lakh	: 0.37%
Above Rs. 10 lakh upto Rs. 50 lakh	: 0.55%
Above Rs. 50 lakh upto Rs. 1 crore	: 0.60%
Above Rs. 1 crore upto Rs. 2 crore	: 1.20%

COMMERCIAL CROPS: Not for self consumption.

- **Oilseed Crops: Groundnut, Mustard, Sesamum, Rapeseed, Linseed, Castor, Sunflower, Niger seed and Soyabean.**
- **Sugar Crops: Sugarcane, & Beat;**
- **Fibre Crops: Jute, Mesta, Sun hemp & Cotton.**
- **Narcotic Crop: Tobacco;**
- **Beverage Crops: Tea, Coffee.**

Maximum limit of interest subsidy under Pradhan Mantri Uchchatar Shiksha Protsahan Yojana. (PM-USP), Central sector Interest subsidy (PM-USP CSIS): Entire moratorium period interest charged on loan amount up to Rs 10.00 lakhs.

DIFFERENTIAL RATE OF INTEREST (DRI) - 1972
Main Objective: To assist poorest of the poor and to bring them above the poverty line.
Applicable: All over India.
Eligibility Norms: Individuals whose family income not to exceed Rs. 18000/- p.a. in Rural Areas and Rs. 24000/- p.a. in Urban & Semi Urban areas.
Purpose of Loan: For productive activities, pursuing higher education by indigent students, purchase of artificial limbs, hearing aids, wheel chair by physically handicapped.
Quantum of Loan: Maximum amount Rs. 15,000 as term loan or working capital or both for productive purpose. For Housing Rs. 20,000/- (only to SC / ST)
Target: Min 40% to SC/ST and 2/3rd to be routed through rural & semi – urban branches
Classification: Weaker Section of advances under Priority sectors.
Subsidy : Not available
Margin: NIL
Rate of Interest: 4% per annum - Simple rate of interest.
Security: Hypothecation of assets created out of bank loan. No collateral security.
Repayment: Maximum 5 years including grace period upto 2 years.

SELF EMPLOYMENT SCHEME FOR REHABILITATION OF MANUAL SCAVENGERS (SRMS)

Manual Scavenger means a person engaged or employed by an individual or a local authority or an agency or a contractor, for manually cleaning, carrying, disposing of, or otherwise handling in any manner, human excreta in an insanitary latrine or in an open drain or pit into which the human excreta from the insanitary latrines is disposed of, or on railway track or in such other spaces or premises, as the Central Govt / State Govt.

Loans upto a maximum project cost of Rs. 15 lakhs will be admissible to identify manual Scavengers and their dependents under the scheme. However, for projects of Self Help Groups/ groups, the maximum project cost shall be limited to Rs. 50 lakh. The project would include general projects as well as sanitation related projects.

Repayment of Loan: Five years (including moratorium) for projects upto Rs. 5,00,000 and 7 years for projects above Rs. 5,00,000 with a moratorium period to start the repayment of loan will be upto 6 months.

The rate of interest chargeable from the beneficiaries:

(a) For projects upto Rs. 1,00,000 /- : 5% per annum (4% per annum for women beneficiaries)

(b) For projects above Rs 1,00,000/-: 6% per annum.

Where the rate of interest chargeable by the banks on loans will be higher than the rates prescribed in the scheme, interest subsidy to the extent of the difference will be given to the banks by the respective State Channelising

Agencies (SCAs)/ or NSKFDC. The SCAs/NSKFDC would be required to pay this amount to banks on monthly basis so that there is no case of charging of compound interest by banks on the interest subsidy portion.

Credit linked up front capital subsidy will be provided to the beneficiaries in a scaled manner, as follows:

RANGE OF PROJECT COST (Rs.)	Rate of Subsidy
For Individuals:	
Upto Rs. 5,00,000	50% of project cost
5,00,000 to 15,00,000	Rs. 2.5 lakh + 25% of remaining project cost
For Group Projects:	
Upto Rs. 10,00,000 lakh per beneficiary Maximum project cost upto Rs. 50,00,000	Same as admissible to individuals subjects to maximum Rs. 3.75 lakh per beneficiary

PRIME MINISTER EMPLOYMENT GENERATION PROG.(PMEGP)

Launched in August 2008 by merging PMRY and REGP (Rural Employment Generation Programme). The objective of the scheme is to generate employment opportunities in rural / urban India through new self-employment projects / micro enterprises.

➢ The Ministry of Micro, Small & Medium Enterprises has conveyed the approval for continuation of the scheme for 5 years from FY 2021-22 to FY 2025-26 (15th Finance Commission cycle) with some modifications.

● BUDGET OUTLAY & TARGETS:

➢ An outlay of Rs.13554.42 crores has been approved for PMEGP for five financial years (2021-22 to 2025-26) to setup about 4 lakh projects with creation of about 30 lakh employment (@ 8 persons per unit). In addition, 1000 units will be upgraded in each Financial Year.

➢ 5% of the total allocation under Budget Estimate for a Financial Year against PMEGP shall be earmarked for Backward and Forward linkage and will be utilized for arranging awareness camps, meeting, publicity, Exhibitions, EDP, Physical verification etc.

● IMPLEMENTING AGENCIES: PMEGP is a central sector scheme administered by the Ministry of Micro, Small and Medium Entt. and being implemented by Khadi and Village Industries Commission (KVIC), the single nodal agency at the National level. At the State level, the Scheme is implemented through State KVIC Directorates, State Khadi and Village Industries Boards (KVIBs) and District Industries Centres (DICs) and banks.

● ELIGIBILITY (FIRST LOAN):

➢ Any individual, above 18 years of age. There is no income ceiling for PMEGP. Assistance under the Scheme is available only for new projects (except for 2nd finance under PMEGP).

➢ **Educational qualification:** At least VIII standard pass for Project cost above Rs.10 lakh for Manufacturing, and Project cost above Rs.5 lakh in Business & Service.

➢ Only one person from one family is eligible. The 'family' includes self & spouse.

➢ SHGs eligible for assistance include those belonging to BPL provided they have not availed benefits under any other Scheme,

➢ Existing units assisted under PMRY, or any other government scheme and the units that have already availed government subsidy under any other scheme are not eligible.

IDENTIFICATION OF BENEFICIARIES: A Task Force will do the identification of beneficiaries at the district level consisting of representatives from KVIC / State KVIB and State DICs and Banks. The DM / DC / Collector will head the Task force.

TRAINING: EDP training can be undertaken either through online or offline mode. The duration of training would be for at least 5 days for projects with project cost up to Rs.5.00 Lakhs and at least for 10 days for projects costing above Rs.5.00 Lakhs. EDP training will be optional for units with project cost up to Rs.2.00 Lakhs. EDP will be mandatory for the PMEGP beneficiaries for claiming margin money subsidy and before releasing the loan by Banks.

The applicants who have already undergone training of at least 10 days (offline mode) / 60 hours (for online mode) Entrepreneurship Development Programme (EDP) / Skill Development Programme or Vocational training need not undergo EDP training again. Applications shall be accessed based on Score Card devised by KVIC in consultation with IBA.

DEFINATION OF INDUSTRY: Any industry (except the list of negative industries) located in the Rural/Urban area which produces goods or renders any service with or without the use of power and in which the fixed capital investment per head of a full time artisan or worker (i.e capital expenditure divided by full time employment created by the project) does not exceed Rs.3.00 Lakhs in plain areas and Rs.4.50 Lakhs in hilly areas/ A&N Islands/Lakshadweep.

RURAL AREA: Any area classified as Village as per the revenue record of the State/Union Territory, irrespective of population. All areas irrespective of their population falling under Panchayati Raj institutions will be accounted under Rural areas, where as areas falling under municipality to be treated as urban areas.

Trading Activity: Business / Trading activities in the form of sales outlets may be permitted in NER, LWE affected Districts and A&N Islands. Retail outlets selling Khadi Products procured from KVIC certified units and products manufactured by PMEGP/SFURTI units may be permitted across the country. Retail outlets backed by manufacturing / service activities are permitted across the country. Maximum 10% of the financial allocation in a year in a state may be used for business / trading activities.

Transport Activities: Transport activities viz purchase of Car/Van/Boat/Shikara etc for transportation of tourists/general public is allowed. A ceiling of 10% on the extent of projects financed under transport activities will be imposed in all areas except NER, Hilly areas, LWE affected districts, A&N Islands, Goa, Puducherry, Daman Diu, Dadra & Nagar Haveli, J&K, Lakshadweep or other specific areas.

MAXIMUM PROJECT COST FOR MARGIN MONEY SUBSIDY:

- **Manufacturing sector: Rs.50 lakh.**
- **Business sector & Service sector: Rs. 20 lakh.**
- If the total project cost exceeds the prescribed ceiling, the balance amount may be provided by Banks without any government subsidy.
- Projects without Capital Expenditure are not eligible for financing .
- Cost of the land should not be included in the Project cost. Cost of the ready built as well as long lease or rental Work shed/ Workshop can be included in the project cost subject to restricting such lease or rental fees calculated for a maximum period of 3 years only.

● **SUBSIDY:**

General Category: Urban- 15% Rural-25%

Special Category: Urban-25%, Rural-35%

● **Special Category:** Covers SC / ST / OBC / Minorities / Women, Physically handicapped, Ex-servicemen, NER, Hill, Border area etc.

● Subsidy should be held as a Term Deposit/Subsidy Reserve Fund for 3 years. No interest should be paid on the TDR. No interest on loan to be charged on the corresponding loan amount.

● **MARGIN:** General Category: 10%, Special Category: 5%.

● **BANK FINANCE:** Upto 90% of the project cost in case of General category and 95% of project cost in case of special category beneficiaries.

● Bank will finance capital expenditure in the form of Term Loan and Working capital in the form of Cash Credit. Bank can also finance in the form of composite loan consisting of Capital expenditure and Working Capital. Working Capital component should not be more than 40% of the project cost in case of manufacturing units and 60% of project cost in case of Service/Trading sector.

● In case, the incurred capital expenditure and working capital expenditure (at the end of 3rd year from the commencement of production) is less than the sanctioned amount under the Bank loan (including own contribution), the excess margin money subsidy against the shortfall shall be refunded to KVIC.

● **CLAIM OF SUBSIDY:** Projects financed jointly i.e., from two different sources (Banks / Financial Institutions) are not eligible for margin money subsidy.

● Banks will take their own credit decision on the basis of viability of each project and will either sanction or reject the proposal within 30 days of receipt of the application recommended by District Agencies. In case of delay in sanction of loan by Banks, applicants can file complaints on PMEGP grievance portal which shall reach the concerned nodal officer within two working days.

● The applicants has to deposit his own contribution and copy of EDP training certificate with photo and Aadhaar number to the financing Bank within 30 working days of receiving the communication of his sanction of loan.

● Bank will release the first instalment (equal to or more than the margin money subsidy component) of loan and claim the subsidy through the online portal. KVIC, after verification and validation of the claim will forward to the nodal Bank for release the margin money subsidy to the financing Bank within 3 working days if the claim is in order. Nodal Bank will transfer the margin money subsidy validated by KVIC to respective financing Bank branch within 24 hours of receipt of validation.

● In case the Bank's advance goes 'bad' before the three-year period, due to reasons, beyond the control of the beneficiary, the Margin Money (MM) (subsidy) will be returned to KVIC. The financing bank will only adjust the MM subsidy on receipt of the adjustment letter from the concerned IA. The financing bank is not authorized to adjust the MM before the mandatory lock-in of 3 years as well as without adjustment letter from the concerned IA. The lock-in period of 3 years shall be considered from the date of release of 1st installment by the financing banks.

● **SECURITY**: No collateral security for loans up to Rs.10 lakh.

● **REPAYMENT**: Between 3 to 7 years after an initial moratorium as prescribed by the bank.

● **APPLICATION & FUND FLOW**:

➤ Applications to be made only through online mode through PMEGP portal. Aadhaar number is mandatory for the individual applicants. In case an individual has not been issued an Aadhaar number in certain areas (NER, J&K etc) the individual shall be offered alternate means of identification for availing benefit under the scheme.

➤ Within 5 working days of receipt of online application along with required documents uploaded online, the nodal officer of KVIC, State KVIB, DIC and other officials of the implementing Agency shall confirm the receipt/acceptance of the application.

➤ The Implementing Agency shall take a final decision on acceptance of the proposal and shall forward to one of the financing Banks opted by the applicant if found feasible based on scoring criteria, which should be minimum 50 out of 100 for project cost up to Rs.10.00 Lakhs and 60 out of 100 for project cost above Rs.10.00 Lakhs.

➤ A District Level Monitoring Committee (DLMC) to be set up in each district chaired by District Magistrate / Collector or his representative not below the rank of Deputy Collector to monitor the performance of implementation of PMEGP on quarterly basis.

● **GRIEVANCES**: An online grievance portal and a grievance cell to be set up by the KVIC, HQ, which will act upon the online complaints within 48 hours and direct the concerned state officers to take necessary action.

● **NEGATIVE LIST OF ACTIVITIES**: The following list of activities will not be permitted under PMEGP for setting up of micro enterprises/ projects /units.

➤ Meat processing, manufacturing or sale of intoxicant items like Beedi/Pan/ Cigar/Cigarette etc., any Hotel or Dhaba or sales outlet serving liquor etc. However serving/selling of non-vegetarian food at hotels/Dhabas will be allowed.

➤ Activities prohibited by Local Government/Authorities keeping in view environment or I socio-economic factors will not be allowed.

➤ Manufacturing of Polythene carry bags of less than 75 microns thickness and manufacture of carry bags or containers made of recycled plastic for storing, and any other item which causes environmental problems.

➤ Any Industry/Business connected with cultivation of crops/plantation like Tea, Coffee, Rubber etc. Sericulture (Cocoon rearing), Horticulture, Floriculture, Animal I Husbandry will not be allowed. However, value addition under these will be allowed under PMEGP. Off Farm/Farm Linked activities in connection with sericulture, horticulture, I floriculture etc. will be allowed.

➤ Industries/Business connected with Animal Husbandry.

● **PHYSICAL VERIFICATION OF PMEGP UNITS**:

➤ 100% physical verification with geo-tagging of the actual establishment and working status of each of the units' set-up under PMEGP will be done by KVIC through third party agencies having expertise in the area. The establishment of unit shall be considered after six months from the date of release of first installment by the Financing Bank.

➤ Physical verification process should start after two years from the date of establishment of unit and should be completed before the completion of lock in period of 3 years. After completion of physical verification and lock in period of 3 years, the IAs shall issue an MM adjustment letter to the Financing Banks based on the outcome of physical verification report.

➢ The Financing Banks will only adjust the Margin Money (subsidy) on receipt of the adjustment letter from the concerned IA. The financing bank is not authorized to adjust the Margin Money (subsidy) before the mandatory lock in period of 3 years as well as without adjustment letter form the concerned IA.

GUIDELINES ON PMEGP 2ND LOAN WITH SUBSIDY FOR UPGRADATION OF EXISTING PMEGP/MUDRA UNITS

● **ELIGIBILITY:** Profit making units financed under PMEGP/MUDRA/REGP with good turnover and having potential for growth with technology up gradation are eligible for second finance.

➢ Margin money claimed under PMEGP would have been successfully adjusted on completion of lock-in period of 3 years. First loan under PMEGP/MUDRA has been successfully repaid in time. Units would be selected uniformly from all over the country, about 10 from each District based on population density, industrial development, availability of raw material etc.

● **PROJECT COST AND SUBSIDY:**

➢ The maximum cost of the project for up gradation of existing PMEGP/MUDRA/REGP units for margin money subsidy under manufacturing sector should be Rs. 1.00 crore and under Business/Service Sector is Rs.25.00 Lakh.

➢ The maximum subsidy for up gradation of existing units will be Rs.15.00 Lakhs (Rs.20.00 Lakhs in case of NE States & Hilly areas) for manufacturing sector and Rs.3.75 Lakhs (Rs.5.00 Lakhs in case of NE States & Hilly areas) for Business/service sector. If the total project cost exceeds the prescribed ceiling, the balance amount may be provided by Banks without any government subsidy.

Category of beneficiaries under PMEGP for up gradation of existing units	Rate of Subsidy (of Project Cost)	Margin (of Project Cost)
All categories	15% (20% in case of NE States and hilly area	10%

● **FINANCE BY BANK AND CLAIM OF SUBSIDY:** The financing Banks will claim and appropriate the Margin Money subsidy as per the procedure prevalent for PMEGP units (1st loan). The parking of subsidy and lock-in period for adjustment will be same as in case of first loan

DEENDAYAL ANTYODAYA YOJANA - NATIONAL RURAL LIVELIHOODS MISSION (DAY- NRLM)

● The Ministry of Rural Development (MoRD), launched the National Rural Livelihood Mission (NRLM) by restructuring Swarnajayanti Gram Swarojgar Yojana. NRLM was renamed as DAY-NRLM (Deendayal Antyodaya Yojana - National Rural Livelihoods Mission) w.e.f. March 29, 2016.

OBJECTIVES: The DAY-NRLM is the flagship program of Govt, for promoting poverty reduction through building strong institutions of the poor, particularly women, and enabling these institutions to access a range of financial services.

FUNDING PATTERN: DAY-NRLM is a Centrally Sponsored Scheme. The financing would be shared between the Centre and the States in the ratio of **60:40 (90:10** in case of NE States including Sikkim; completely from the Centre in case of UTs).

WOMEN SHGS AND THEIR FEDERATIONS:

➢ DAY-NRLM promotes affinity-based women Self Help Groups (SHGs). However, only in case of groups to be formed with persons with disabilities and other special categories like elders and transgenders, DAY-NRLM may have both men and women in the Self-Help Groups.

➢ Women SHGs under DAY-NRLM consist of **10-20 members.** In case of special SHGs i.e., groups in the difficult areas, groups with disabled persons, and groups formed in remote tribal areas, this number may be a minimum of **5 members.**

TARGETS: DAY-NRLM would ensure adequate coverage of vulnerable sections of the society such that 50% of the beneficiaries are SC/STs, 15% are minorities and 3% are persons with disability, while keeping in view the ultimate target of 100% coverage of all households under the automatically included criteria and households with at least one deprivation criterion as per Socio-Economic and Caste Census (SECC).

FINANCIAL ASSISTANCE TO THE SHGs:

Revolving Fund (RF): DAY-NRLM, MoRD, will provide RF support as corpus ranging between **Rs.10,000 – Rs.15,000 per SHG.**

➢ SHGs in existence for a **minimum period of 3/6 months** and follow the norms of good SHGs known as **'Panchasutras'**, viz., regular meetings, regular savings, regular internal lending, regular recoveries and maintenance of proper books of accounts, and which have not received any Revolving Fund earlier will be eligible for such support.

Capital Subsidy: No capital subsidy would be sanctioned to any SHG.

INTEREST SUBVENTION:

a) The scheme is **limited to Women Self Help Groups** under DAY-NRLM in rural areas only.

b) For loans up to **Rs.3 lakh** under the scheme, banks will extend credit at a concessional interest rate of **7% per annum.** For outstanding credit balance **upto Rs.3 lakh,** banks will be **subvented at a uniform rate of 4.5% p.a.** during FY 2022-23.

c) For loans **above Rs.3 lakh and up to Rs.5 lakh** under the scheme, banks will extend credit at interest rate equivalent to their 1 year-MCLR or any other external benchmark based lending rate or **10% per annum,** whichever is lower. For outstanding credit balance above Rs.3 lakh and upto Rs.5 lakh, banks will be **subvented at a uniform rate of 5% per annum** during FY 2022-23.

d) Interest Subvention will be payable only for the period during which an account remains in standard category.

e) Women SHGs promoted by other agencies and following the DAY-NRLM protocols will also be eligible for benefit of subvented loans subject to prior submission of the details of such SHGs.

f) The interest subvention scheme shall be implemented for banks through a Nodal Bank selected by the Ministry of Rural Development. For the year 2022-23, Indian Bank has been nominated as the Nodal bank.

g) In order to avail the interest subvention on credit upto Rs.3 lakh extended to women SHGs under DAY-NRLM @7% as well as on credit above Rs.3 lakh and upto Rs.5 lakh extended to SHGs, all banks are required to submit claim certificates on quarterly basis (i.e., as on June 30, 2022; Sept. 30, 2022; Dec. 31, 2022 and March 31, 2023) to the Nodal Bank. The claims submitted by any bank should be accompanied by claim certificate (in original) certifying the claims for subvention as true and correct.

Opening of Savings/Current Accounts:

a) The role of banks would commence with opening of accounts for all the SHGs including those having members with disability and for federations of SHGs for promoting of savings habits among their members. Business Correspondents deployed by banks may also be authorized to open saving bank accounts of the SHGs.

b) Opening of savings account of all members with the bank shall not be made a prerequisite for credit linkage of SHGs.

c) Banks to open **savings accounts** of federations of SHGs at village, gram panchayat, cluster or higher level. These accounts may be categorized as savings account for 'Association of persons'. The KYC norms for the signatories of such accounts would be applicable.

d) Banks to open **current accounts** for Producer Groups promoted under DAY-NRLM at village, gram panchayat, cluster or higher level. The KYC) norms for the signatories of such accounts would be applicable.

e) Banks to put in place dual-authentication facility in both ON-US and OFF-US environment to enable SHGs to perform transactions in jointly operated savings / cash credit accounts at retail outlets managed by Business Correspondents.

LENDING TO SHGs AND THEIR INDIVIDUAL MEMBERS

Eligibility Criteria for SHGs to avail loans:

a) SHGs should be in active existence for at least 6 months as per their books of accounts (and not from the date of opening of S/B account).

b) SHGs should be practicing 'Panchasutras'.

c) SHGs should qualify as per grading norms fixed by NABARD.

d) The existing defunct SHGs are also eligible for credit if these are revived and continue to be active for a minimum period of three months.

e) Banks may use the Common Loan Application Forms devised by Indian Bank's Association (IBA) and encourage SHGs to submit loan applications online through the National Portal for Credit Linked Schemes.

LOAN AMOUNT:

a) Banks should assist an SHG through multiple doses of assistance. SHGs may avail either Term Loan (TL) or a Cash Credit Limit (CCL) or both based on their requirement. Additional loan may be sanctioned even though the previous loan is outstanding, based on the repayment behavior and performance of the SHG.

b) **In case of CCL, banks advised to sanction a minimum loan of Rs.6 lakh to each eligible SHG for a period of 3 years** with a yearly drawing power (DP). The drawing power may be enhanced annually based on the repayment performance of the SHG.

CASH CREDIT LIMIT (CCL) - DP calculation:

i. **DP for the first year:** 6 times of the existing corpus or minimum of Rs.1.5 lakh, whichever is higher;

ii. **DP for the second year:** 8 times of the corpus at the time of review/enhancement or minimum of Rs.3 lakh, whichever is higher

iii. **DP for the third year:** Minimum of Rs.6 lakh based on the Micro Credit Plan prepared by SHG and appraised by the federations/support agency.

iv. **DP for the fourth year onwards:** Above Rs.6 lakh, based on the MCP prepared by SHG and appraised by the federations/support agency.

e) TERM LOAN - to sanction loans in doses:

i. **First dose:** 6 times of the existing corpus or minimum of Rs.1.5 lakh, whichever is higher.

ii. **Second dose:** 8 times of the existing corpus or minimum of Rs.3 lakh, whichever is higher.

iii. **Third dose:** Minimum of Rs.6 lakh, based on the MCP prepared by the SHGs and appraised by the federations / support agency.

iv. **Fourth dose onwards:** Above Rs.6 lakh, based on the MCP prepared by the SHGs and appraised by the federations/support agency.

CREDIT FACILITIES TO SHG MEMBERS:

a) In order to facilitate women SHG members to graduate to entrepreneurs, banks may extend loans up to **Rs.10 lakh** to individual members of select matured well performing SHGs (SHGs which are **more than 2 years old** and have accessed at least one dose of bank loan with timely repayment).

b) The individual should be running a viable economic enterprise. Banks to share data on individual loans to women SHGs members in a mutually agreed format and periodicity.

c) One woman in every SHG under DAY-NRLM may be provided a loan up to **Rs.1 lakh** under the MUDRA Scheme, if she is otherwise eligible.

d) Banks to provide minimum **OD facility of Rs.5,000** to every woman SHG member having PMJDY a/c. Banks to regularly share data on OD limit to women SHGs' members in a mutually agreed format and periodicity.

PURPOSE OF LOAN: The loan amount would be distributed among members based on the MCP prepared by the SHGs. The loans may be used by members for meeting social needs, high cost debt swapping, construction or repair of house, construction of toilets and taking up sustainable livelihoods or to finance any viable common activity.

a) In order to facilitate use of loans for augmenting livelihoods of SHG members, **at least 50% of loans above Rs.1 lakh, 75% of loans above Rs.4 lakh and at least 85% of loans above Rs.6 lakh should be used primarily for income generating productive purposes.**

REPAYMENT SCHEDULE FOR TERM LOANS:

a) **The first dose of loan** may be repaid in 24-36 months in monthly/quarterly instalments.

b) **The second dose of loan** may be repaid in 36-48 months in monthly/quarterly instalments.

c) **The third dose of loan** may be repaid in 48-60 months based in monthly/quarterly instalments.

d) **From the fourth dose onward** loans may be repaid between 60-84 months in monthly/qtly installments.

All credit facilities sanctioned under DAY-NRLM would be governed by RBI's asset classification norms.

SECURITY AND MARGIN:

a) For loans to SHGs up to **Rs.10 lakh, no collateral and no margin** will be obtained. No lien should be marked against savings bank accounts of SHGs and no deposits should be insisted upon while sanctioning loans.

b) For loans to SHGs **above Rs.10 lakh and up to Rs.20 lakh,** no collateral should be obtained, and no lien should be marked against savings bank account of SHGs. However, the entire loan (irrespective of the loan outstanding, even if it subsequently goes below Rs.10 lakh) would be eligible for coverage under Credit Guarantee Fund for Micro Units.

c) For loan to SHGs **above Rs.10 lakh and up to Rs.20 lakh,** a margin not exceeding 10% of the loan amount exceeding Rs.10 lakh may be obtained as per the bank's approved loan policy.

DEALING WITH DEFAULTERS:

a) Willful defaulters should not be financed under DAY-NRLM. In case willful defaulters are members of a group, they may be allowed to benefit from the thrift and credit activities of the group including the corpus built up with the assistance of Revolving Fund. However, the group may be financed excluding defaulters while documenting the loan.

b) Banks should not deny loans to SHGs on the grounds of family members of individual members of SHG being defaulters with the bank. Further, non-willful defaulters should not be debarred from receiving loans.

c) In case default is due to genuine reasons, banks may follow the norms prescribed for restructuring the credit facilities.

DOCUMENTATION AND FOLLOW-UP:

Loan pass books or statement of accounts in regional languages may be issued to the SHGs which may contain all the terms and conditions details of the loans disbursed.

Bank branches may designate one fixed day in a fortnight to enable the staff to go to the field and attend the meetings of the SHGs and Federations to observe the operations of the SHGs.

RECOVERY: Banks shall take all possible measures, such as personal contact and organization of joint recovery camps with District Mission Management Units (DMMUs)/District Rural Development Agency (DRDAs) to ensure the recovery of loans.

b) Banks should prepare a list of defaulting SHGs under DAY-NRLM every month and furnish the list in the Block Level Bankers Committee and District Consultative Committee (DCC) meetings. This would enable the DAY-NRLM staff at the block/district level to assist the bankers in initiating recovery.

CREDIT TARGET PLANNING & MONITORING:

a) Banks may set up cells for Self Help Groups in their respective Regional/Zonal offices to periodically monitor and review the flow of credit to the SHGs, collect data from the branches and make available consolidated data to the Head Office and the DAY-NRLM units at the districts/blocks. The consolidated data may also be discussed in the State Level Bankers' Committee (SLBC), BLBC and DCC meetings regularly.

b) **State Level Bankers' Committee:** SLBCs shall constitute a sub-committee consisting of members from all banks operating in the State, RBI, NABARD, CEO of SRLM, representatives of State Rural Development Department, Secretary-Institutional Finance and representatives of Development Departments etc.

c) Based on the Potential Linked Plan/State Focus Paper prepared by NABARD, the SLBC sub-committee on SHG Bank Linkage may arrive at the district-wise, block-wise and branch-wise credit plan. The sub-committee should consider the existing SHGs, new SHGs proposed, and number of SHGs eligible for fresh and repeat loans as suggested by the SRLMs to arrive at the credit targets for the states.

d) **The district-wise credit plans** should be communicated to the District Consultative Committee (DCC). The block- wise/cluster-wise targets are to be communicated to the bank branches through the Controllers.

e) **DCC:** The DCC shall regularly monitor the flow of credit to SHGs at the district level and resolve issues that constrain such flow of credit. This committee should include DMMU staff representing DAY-NRLM and office bearers of SHG federations in addition to other members.

f) **BLBC:** The BLBC shall take up issues of SHG bank linkage at the block level. In this Committee, the SHGs/Federations of the SHGs should be included as members to raise their voice in the forum. Branch-wise status of SHG credit shall be monitored at the BLBC.

g) **Reporting to LDM:** The branches may furnish the progress report and the delinquency report under various activities of DAY-NRLM to the LDM every month for onward submission to Special Sub-Committee of SLBC.

h) **Reporting to RBI:** Banks may furnish a state-wise consolidated report on the progress made under DAY-NRLM to RBI on quarterly basis within a month from the end of the concerned quarter.

i) **Lead Bank Return (LBR):** Existing procedure to be continued.

. **PARTICIPATORY IDENTIFICATION OF POOR (PIP):**

a) DAY-NRLM would undertake a community based process for covering the target beneficiaries i.e., participation of the poor in the process of identifying the target group. The households identified with at least one deprivation criteria as per Socio-Economic and Caste Census (SECC) along with households identified through the P.I.P process would be accepted as DAY-NRLM target group. The list finalized after P.I.P process would be vetted by the Gram Sabha and approved by the Gram Panchayat.

c) Till the P.I.P process is undertaken by the State in a particular district/block, the rural households with at least one deprivation criteria as per SECC list would be targeted under DAY-NRLM. For implementation of DAY-NRLM, up to 30% of the total membership of the SHGs may be from among the population marginally above the poverty line, subject to the approval of other members of the group. This 30% also includes the poor households whose name does not figure in the SECC list but are as poor as those included in SECC list.

RURAL SELF EMPLOYMENT TRAINING INSTITUTES (RSETIs): RSETI is built on the model pioneered by Rural Development Self Employment Institute (RUDSETI) – a collaborative partnership between SDME Trust & Canara Bank. The model envisages transforming unemployed youth into confident self-employed entrepreneurs through a short duration experiential learning programme followed hand holding support.

NO TDS ON INTEREST FROM MAHILA SAMMAN SAVINGS CERTIFICATE: The Central Board of Direct Taxes issued a notification clarifying that interest earned from Mahila Samman Savings Certificate (MSSC) will not be subject to Tax Deducted at Source (TDS).

NATIONAL URBAN LIVELIHOOD MISSION (NULM)

DEENDYAL ANTYODAYA YOJANA (DAY)

The Ministry of Housing and Urban Poverty Alleviation has restructured the existing Swarna Jayanti Shahari Rozgar Yojana and launched the National Urban Livelihood Mission (NULM) for individuals and SHGs.

Selection of Beneficiary: Community Organisers (COs) and professionals from Urban Local Body (ULB) will identify the prospective beneficiaries from among the urban poor.

Educational Qualifications: **No minimum educational qualification.** In addition to skill training of the beneficiaries, the ULB will also arrange to conduct EDP for 3-7 days for individual and group entrepreneurs.

Pattern of Financial Assistance: The financial assistance available to urban poor in setting up individual and group enterprises will be in the form of Interest subsidy on the bank loans, **over and above 7% of interest** available on a bank loan. The difference **between 7% p.a and the prevailing rate of interest** will be provided to banks under NULM in those accounts having timely repayment. An additional 3% interest subvention will be given to women SHGs who repay their loan on time.

Individual Enterprises (SEP-I):

- **Age**: The beneficiary should have attained the age of 18 years.
- **Project Cost (PC):** The maximum unit project cost is **Two Lakhs.**
- **Margin:** Nil for loan upto Rs. 50,000/- and for higher amount 5% margin should be taken preferably and in no case be more than 10% of the project cost.
- **Collateral on Bank Loan**: No collateral required.
- **Repayment:** Repayment schedule ranges from **5 to 7** years after initial moratorium of **6-18** months as per norms of bank.

Group Enterprises (SEP-G):

Eligibility: The group enterprise should have minimum **5 members** with a minimum of **70% members from urban poor families.**

Age: All members of the group should have attained an age of 18 yrs.

Project Cost (PC): The maximum unit project cost for a group enterprise is **Rs. 10,00,000.**

Loan: Loan can be extended either as a single loan to the group or each member of the group. Individual loans upto **Rs. 2 Lakh** with overall cap of **Rs. 10 lakh.** It can be term loan or CC or composite loan.

Margin: Nil upto Rs. 50,000/- and for higher amount **5%** margin should be taken preferably and in no case be more than **10%** of the project cost.

Collateral Guarantee on Bank Loan: No collateral guarantee required.

Repayment: 5 to 7 years with a moratorium of 6 to 18 months, where necessary.

Implementing Agency: Urban Local Bodies / Municipal Committee. They are to carry home to home survey for identification of beneficiaries.

Target: Women – 30%; **Disabled** – 5%; **Minorities** 15%; **SC / ST** – Pro – rata to local population.

INTEREST SUBVENTION ON HOUSING LOANS

With a view to encourage house construction, Govt. had introduced interest subvention of 1% on housing loans up to Rs. 15 lac provided total unit cost does not exceeds Rs. 25 lac.

EDUCATION LOAN INTEREST SUBVENTION

Govt. has launched Central Scheme to provide Interest Subsidy (CSIS) during the moratorium period - course period plus one year, to EWS under Education Loan Scheme of IBA for approved courses in India for loan upto Rs. 10 lacs. Annual gross parental / family income should not exceed Rs. 4.5 lac per yr from all sources. Canara Bank is a nodal bank.

MODIFIED INTEREST SUBVENTION FOR AGRICULTURE

i) In order to provide short term crop loans and short term loans for allied activities including animal husbandry, dairy, fisheries, bee keeping etc., upto an overall limit of Rs.3 lakh to farmers through KCC at concessional interest rate during the years 2022-23 and 2023-24, GOI will provide interest subvention @ 1.5% to lending institutions viz. Public Sector Banks and Pvt Banks (in respect of loans given by their rural and semi-urban branches only) SFBs and computerized PACS which have been ceded with SCBs. This interest subvention will be calculated on the loan amount from the date of disbursement/drawal up to the date of actual repayment of the loan by the farmer or up to the due date of the loan fixed by the banks, whichever is earlier, subject to a maximum period of one year. The applicable lending rate to farmers and the rate of interest subvention will be as follows:

Financial Year	Lending rate to farmers	Rate of Interest Subvention to Lending Institutions
2022-23	7%	1.50%
2023-24	7%	1.50%

ii) An additional interest subvention of 3% per annum will be provided to such of those farmers repaying in time, i.e., from the date of disbursement of the loans upto the actual date of repayment or upto the due date fixed by the banks for repayment of such loans, whichever is earlier, subject to a maximum period of one year from the date of disbursement.

➢ This also implies that the farmers repaying promptly as above would get short term crop loans and/or short term loans for allied activities including animal husbandry, dairy, fisheries, bee keeping etc. **@ 4% per annum** during the financial years 2022-23 and 2023-24. This benefit would not accrue to those farmers who repay their agri loans after one year.

iii) Interest subvention and prompt repayment incentive benefits on short term crop loans and short term loans for allied activities will be available on an overall limit of Rs.3 lakh per annum subject to a maximum sub-limit of **Rs.2 lakh per farmer** in respect of those farmers involved only in activities related to animal husbandry, dairy, fisheries, bee keeping etc. The limit for crop loan component will take priority for interest subvention and prompt repayment incentive benefits and the residual amount will be considered towards allied activities including animal husbandry, dairy, fisheries, bee keeping etc. subject to the cap as mentioned above.

iv) In order to discourage distress sale by farmers and to encourage them to store their produce in warehouses, the benefit of interest subvention under KCC will be available to small and marginal farmers for a further period of upto six months post the harvest of the crop against negotiable warehouse receipts on the produce stored in warehouses accredited with WDRA, at the same rate as applicable to the crop loan.

v) To provide relief to farmers affected by natural calamities, the applicable rate of interest subvention for that year will be made available to banks for the first year on the restructured loan amount. Such restructured loans will attract normal rate of interest from the second year onwards.

REVISED DEFINITIONS OF NON-SSI / WEAK UNITS

1) Non SSI – SIC Unit: (Earlier called – Sick Industrial Co.): A Non SSI industrial undertaking (irrespective of type of incorporation) whose accumulated losses as at the end of the latest financial year are equal to or exceeding its Net Worth (Paid up Capital + Free reserves).

2) Non SSI Weak Unit: (Earlier: Potentially SIC: Weak Units): A non SSI industrial undertaking (irrespective of type of incorporation) if any of its borrowal a/cs (principal or interest) has remained overdue for a period exceeding 1 year or there is erosion in the NW due to accumulated losses to the extent of 50% of its NW during the previous financial year.

REHABILITATION OF SICK MSE – Chakrabarty Recommendations

DEFINITION OF SICKNESS: A Micro or Small Enterprise (as defined in the MSMED Act 2006) may be said to have become Sick, if:

a) Any of the borrowal account of the enterprise remains NPA for three months or more, OR

b) There is erosion in the net worth due to accumulated losses to the extent of 50% of its net worth during the previous accounting year.

The earlier stipulation that the unit should have been in commercial production for at least two years has been removed.

FRAMEWORK FOR REVIVAL & REHABILITATION - MSMEs

- MSMEs having loan limits up to Rs.25 crore, including accounts under consortium or multiple banking arrangement (MBA) are eligible under the framework. Before a loan account of a MSME turns into a NPA, banks or creditors should identify incipient stress in the account by creating three sub-categories under the Special Mention Account (SMA) category as follows:

SMA Sub-Categories	Basis for Classification
SMA-0	Principal or interest payment not overdue for more than 30 days but account showing signs of incipient stress.
SMA-1	Principal or interest payment overdue between 31-60 days.
SMA-2	Principal or interest payment overdue between 61-90 days.

- The branch maintaining the account should consider forwarding the stressed accounts with aggregate loan limits above Rs.10 lakh to the Committee for corrective action plan (CAP) within five working days for a suitable corrective action plan. Forwarding the account to the Committee for CAP will be mandatory in cases of accounts reported as SMA-2.
- As regards accounts with aggregate loan limits up to Rs.10 lakh identified as SMA-2, the account should be mandatorily examined for CAP by the branch itself.

However, where the branch manager has decided the option of recovery under CAP instead of rectification or restructuring, the same should be referred to the Committee for their concurrence.

- Any MSME borrower may voluntarily initiate proceedings under this Framework, if the enterprise reasonably apprehends failure of its business or its inability or likely inability to pay debts or there is erosion in the net worth due to accumulated losses to the extent of 50% of its net worth during the previous accounting year, by making an application to the branch or directly to the Committee.

When such a request is received by lender, the account with aggregate loan limits above Rs.10 lakh should be referred to the Committee. The Committee should convene its meeting not later than five working days from the receipt of the application, to examine the account for a suitable CAP. The accounts with aggregate loan limit up to Rs.10 lakh may be dealt with by the branch manager for a suitable CAP.

- For MSME borrowers having credit facilities under a consortium of banks or multiple banking arrangement (MBA), the consortium leader, or the bank having the largest exposure to the borrower under MBA, shall refer the case to its Committee, if the account is reported as stressed either by the borrower or any of the lenders under this Framework.

- While decisions of the Committee will be by simple majority, the Chairperson shall have the casting vote, in case of a tie. In case of accounts under consortium, lenders should sign an Inter-Creditor Agreement (ICA) on the lines of Joint Lenders' Forum (JLF) Agreement.

Stressed enterprises having aggregate loan limits above Rs 10 lakh can also directly file an application for CAP to the Committee or to the largest lender for onward submission under advice to all its lenders.

- Where an application is filed by a bank / lender and admitted by the Committee, the Committee shall notify the concerned enterprise about such application within five working days and require the enterprise to disclose the details of all its liabilities, including the liabilities owed to the State or Central Govt. and unsecured creditors, if any, within 15 working days of receipt of such notice. If the enterprise does not respond within the above period, the Committee may proceed ex-parte.

- On receipt of information relating to the liabilities of the enterprise, the Committee may send notice to such statutory creditors as disclosed by the enterprise as it may deem fit, informing them about the application under the Framework and permit them to make a representation regarding their claims before the Committee within fifteen working days of receipt of such notice.

- Within 30 days of convening its first meeting, the Committee shall take a decision on the option to be adopted under the corrective action plan and notify the enterprise about such a decision, within five working days from the date of such decision.

- If the corrective action plan decided by the Committee envisages restructuring of the debt of the enterprise, the Committee shall conduct the detailed Techno-Economic Viability (TEV) study and finalise the terms of such a restructuring in accordance with the extant prudential norms for restructuring, within 20 working days (for accounts having aggregate exposure up to Rs.10 crore) and within 30 working days (for a/cs having aggregate exposure above Rs.10 cr and up to Rs.25 crore) and notify the enterprise about such terms, within five working days.

● Upon finalisation of the terms of the corrective action plan, the implementation of that plan shall be completed by the concerned bank within 30 days (if the CAP is Rectification) and within 90 days (if the CAP is restructuring).

● The Committee may explore various options to resolve the stress in the account. While Techno-Economic viability of each account is to be decided by the concerned lender/s before considering restructuring as CAPs, for accounts with aggregate exposure of Rs.10 crore and above, the Committee should conduct a detailed Techno-Economic Viability study before finalising the CAP.

● If the Committee is not able to decide on CAP and restructuring package due to non-availability of information on statutory dues of the borrower, the Committee may take additional time not exceeding 30 days for deciding CAP and preparing the restructuring package.

●Wilful defaulters and cases of Frauds and Malfeasance remain ineligible for restructuring.

CGS FOR ANIMAL HUSBANDRY & DAIRYING UNDER ANIMAL HUSBANDRY INFRASTRUCTURE DEVEL. FUND (REVISED 2.0):

As a part of Prime Minister's Atma Nirbhar Bharat Abhiyan stimulus package, "Animal Husbandry Infrastructure Development Fund" (AHIDF) of Rs.15000 crore has been approved to incentivize investments by individual entrepreneurs, private companies, Farmer Producer Organisations (FPOs), Micro, Small and Medium Enterprises (MSMEs), Section 8 companies to establish (i) the dairy processing and value addition infrastructure, (ii) meat processing and value addition infrastructure, (iii) Animal Feed Plant, (iv) Breed Improvement Technology and Breed Multiplication Farm (v) Animal Waste to Wealth Management (Agri Waste Management) and (vi) Setting up of Veterinary Vaccine and Drugs Production Facilities. Government of India has issued Guidelines for implementation of AHIDF and has also issued Implementation Guidelines 2.0.

As a part of AHIDF, Govt. has established a **"Credit Guarantee Fund Trust for Animal Husbandry and Dairying" (CGFT-AHD)** of Rs. 750 crore. Department of Animal Husbandry and Dairying (DAHD) will contribute Rs. 75 crore per year over 10 years towards Credit Guarantee at the beginning of each financial year. The important aspects of the scheme are as follows;

Corpus of CGFT-AHD: A dedicated Fund with a corpus of Rs. 750 crore will be managed by NABSanrakshan Trustee Private Limited, a Trustee Company and a wholly owned subsidiary of NABARD. NABSanrakshan Trustee Private Limited, is a Company set up by NABARD under the Companies Act 2013 to act as the Trustee and operate the various credit guarantee funds set up / being set up/ to be set up by Government of India, State Governments or other public authority, etc. from time to time.

Eligible Borrower/Credit Facility: New/Existing MSME unit setting up a project which satisfies the eligibility requirements for financing under AHIDF shall be eligible borrowers under the scheme. The cumulative loan amount should not exceed Rs.100.00 crore per eligible project under AHIDF and the Project Approval Committee (PAC) and Project Sanctioning Committee (PSC) (for projects above Rs.50.00 crore) should have recommended Credit Guarantee for the project.

Credit Guarantee Cover & Its Period: The maximum credit guarantee cover under the Scheme will be limited to 25% of the credit facility with a maximum ceiling of Rs. 25 crore.

Guarantee Fee: Annual Guarantee Fee shall be charged @ 0.50% p.a. on the sanctioned amount of credit facility for the 1st year and on the outstanding amount of credit facility for the remaining tenure of the guarantee.

Invocation of Guarantee: The Eligible Lending Institution may invoke the guarantee in respect of credit facility within a maximum period of 36 months from the date of NPA (if account turns into NPA after lock-in period of 18 months). A lock-in-period of 18 months has been stipulated from either the date of last disbursement of the loan to the borrower or the guarantee start date in respect of credit facility to the borrower, whichever is later.

AREAS AFFECTED BY NATURAL CALAMITIES

- SLBCs / District Level Consultative Committees / banks to take a view on rescheduling of loans if the crop loss is 33% or more.
- Banks may allow a max period of repayment of up to 2 years (including the moratorium period of 1 year) if the loss is between 33% and 50%.
- If the crop loss is 50% or more, the restructured period for repayment may be extended to a maximum of 5 years (including moratorium period of one year).

PRADHAN MANTRI KISSAN SAMMAN NIDHI (PM-KISAN)

With a view to augment the income of the Small and Marginal Farmers (SMFs), (comprising of husband, wife and minor children) the Govt. has launched a new Central Sector Scheme - an assured income support to all land holding farmer families.

a) Collective land ownership of the family is upto 2 hectares of land.

b) Existing land-ownership system will be used for identification of beneficiaries for calculation of benefit.

c) All landholding families will be provided direct income support @ Rs.6000/- per year to be transferred in **3** equal installment of Rs.2000/- each

IMPORTANT POINTS

- The Agri Clinic and Agri Business Centres (ACABC) scheme is implemented by Ministry of Agriculture and Farmers' Welfare, Govt. of India with NABARD acting as subsidy channelizing agency.
- Growing of two or more crops on same land in between rows/furrows is termed as Intercropping.
- Cut, Tear, Curl (CTC) is a method used in processing of black tea in which tea leaves are passed through a series of cylindrical rollers with serrated blades that crush, tear, and curl the tea into small, even-shaped pellets.
- MNREGA is to provide at least 100 days of guaranteed wage employment in a financial year to each household in rural areas of the country whose adult member's volunteers to do unskilled manual work.

AGRI-CLINICS AND AGRI-BUSINESS CENTRES

- Agri-Clinics and Agri-Business Centers scheme has been formulated by NABARD.
- Graduates in Agri. or any subject allied to agriculture like Horticulture, Sericulture etc.
- The outer ceiling for the cost of project by individuals is Rs.20 lac and for joint / group projects, the ceiling is Rs.1 cr, pro-rata. NABARD provides 100% refinance.
- **Repayment:** 5-10 years (with moratorium upto 2 years), in easy installment.
- **Collateral security and margin:** Waived for loans upto Rs. 5 lacs.
- **Capital Subsidy:** Normal 36% of capital cost. For SC/ST, women, NER 44%.

KISAN CREDIT CARD (KCC) SCHEME

- The Kisan Credit Card scheme aims at providing adequate and timely credit support from the banking system under a single window with flexible and simplified procedure to the farmers to meet the short term credit requirements for cultivation of crops; Post-harvest expenses; Produce marketing loan; Consumption requirements of farmer household; Working capital for maintenance of farm assets and activities allied to agriculture; Investment credit requirement for agriculture and allied activities.
- KCC scheme was introduced in 1998 for and revisited in 2012 by a working Group under the Chairmanship of Shri T. M. Bhasin.
- **Eligibility:**

i). Farmers - Individual/joint borrowers who are owner cultivators;
ii). Tenant farmers, oral lessees & share croppers;
iii) Self Help Groups (SHGs) or Joint Liability Groups (JLGs) of farmers including tenant farmers, share croppers etc.

- **Fixation of credit limit / Loan amount: All farmers other than marginal farmers – Short term -first year:** Scale of finance for the crop (as decided by District Level Technical Committee) **x** Extent of area cultivated + 10% of limit towards post-harvest/household/ consumption requirements + 20% of limit towards repairs and maintenance expenses of farm assets + crop insurance and/or accident insurance including PAIS, health insurance & asset insurance.
- **Limit for Second & subsequent year**: First year limit for crop cultivation purpose arrived at as above plus 10% of the limit towards cost escalation / increase in scale of finance for every successive year (2nd, 3rd, 4th and 5th year) and estimated term loan component for the tenure of KCC, i.e., five years.
- **Term loan for investment:** The term loan for investment is to be made towards land development, minor irrigation, purchase of farm equipment and allied agricultural activities.
- **Maximum Permissible Limit**: The short term loan limit arrived for the 5th year plus the estimated long term loan requirement will be the Maximum Permissible Limit (MPL) and is to be treated as KCC limit.
- **For Marginal Farmers**: A flexible limit of **Rs. 10,000 to Rs. 50,000** may be provided (as Flexi KCC) based on the land holding and crops grown

including post-harvest warehouse storage related credit needs and other farm expenses, consumption needs, etc., plus small term loan investment like purchase of farm equipments, establishing mini dairy/backyard poultry without relating it to the value of land. The composite KCC limit is to be fixed for a period of five years on this basis.

- **Issue of Electronic Kisan Credit Cards:** All new KCC must be issued as smart card cum debit card. Further, at the time of renewal of existing KCC; farmers must be issued smart card cum debit card.
- **Validity/Renewal:** Banks may determine the validity period of KCC and its periodic review.
- **Security:** Hypothecation of crops: For KCC limit upto Rs. 1.60 lakh banks are to waive margin/security requirements.
- **With tie-up for recovery:** Banks may consider sanctioning loans on hypothecation of crops up to card limit of Rs. 3.00 lakh without insisting on collateral security.
- **Collateral security:** Collateral security may be obtained at the discretion of Bank for loan limits above Rs. 1.60 lakh in case of non-tie-up and above Rs. 3.00 lakh in case of tie-up advances.
- Besides the mandatory crop insurance, the KCC holder should have the option to avail the benefit of any type of asset insurance, accident insurance (including PAIS), health insurance (wherever product is available) and have premium paid through his/her KCC account. Premium has to be borne by the farmer/bank according to the terms of the scheme.

SWAROGZAR CREDIT CARD

- Issued to self employed person i.e. fishermen, rickshaw owner, handloom weaver etc.
- **Amount:** Rs.25,000 per borrower by way of composite loan.
- **Validity:** 5 years. No collateral security. Term loan is repayable in 5 years in instalments. CC limit to be renewed within 12 months

GENERAL CREDIT CARD (GCC)

- **RBI has recently modified the scheme:**

a) The GCC Scheme shall be called **'General Credit Card (GCC) Facility.'**

b) All credit cards, such as Artisan Credit Card, Laghu Udyami Card, Swarojgar Credit Card, Weaver's Card, etc., catering to the non-farm entrepreneurial credit needs and are eligible for classification under the priority sector guidelines are covered by the GCC scheme. Hence, banks must report to RBI about such credits being extended.

c) GCC shall be issued in the form of a credit card.

d) The terms and conditions of the credit facilities extended in the form of GCC shall be as per the Board approved policies of the banks. Guidelines on collateral free lending for micro and small units shall apply. Debit cards, if any, already issued as per the previous instructions shall remain valid till their expiry/repayment of the existing credit facilities.

LAGHU UDHYAMI CREDIT CARD (LUCC)

SIDBI has structured a Laghu Udhyami Credit Card for small business, retail traders, artisans, professionals, self-employed persons and small industrial units.

Eligible: Existing customers will satisfactory track record with WC limits upto 10 lacs for last three years are eligible for the card. Credit Limit 20% of annual sale. In case of Professional 50% of the gross income.

Limit: Rs 10 lacs. **Validity:** 3 years.

EDUCATION LOAN SCHEME

Based on the recommendations of R.J. Kamath Committee.

Course Eligible: a) Studies in India: All kinds of education in India. b) Studies abroad: Graduation, Post graduation, Courses conducted by CIMA - London, CPA in USA.

Quantum: Studies in India – Maximum Rs.10 lacs. Studies abroad – Maximum Rs.20 lacs.

Margin: Up to Rs.4 lacs: Nil, Above Rs.4 lacs: Studies in India: 5% Studies Abroad: 15%

Security: No collateral security up to Rs. 7.5 lac. Documents to be executed by the students and parents / guardians.

Rate of Interest: Upto Rs. 4 lacs : Base rate. Above Rs. 4 lacs : Base rate + 1%. The interest to be debited quarterly / half yearly on simple basis during the repayment holiday period. Penal interest @ 2% be charged for above Rs. 2 lacs for the overdue amount and overdue period.

Repayment: Course period + 1 year or 1 year after getting job, whichever is earlier. The loan to be repaid in 5-7 years after commencement of repayment.

The accrued interest during the repayment holiday period to be added to the principal and repayment in EMI. Interest concession of 1-2% may be provided if the interest is serviced during gestation period.

VOCATIONAL EDUCATION & TRAINING

a) Quantum of Finance: Need based with a maximum of:

i) For courses of duration upto 3 months	**: Rs.20,000;**
ii) For courses of duration 3 to 6 months	**: Rs.50,000**
iii) For courses of duration 6 months to 1 year	**: Rs.75,000;**
iv) For courses of duration above 1 year	**: Rs.1,50,000.**

b) Margin: Nil

c) Repayment Period: Moratorium period plus

i) Courses upto 1 year : 2 to 5 years

ii) Above 1 year : 3 to 7 years.

d) Moratorium Period:

i) For courses of duration upto 1 year : 6 months from the completion of the course.

ii) For courses of duration above 1 year : 12 months from the completion of the course.

CREDIT GUARANTEE FUND FOR MICRO UNITS (CGFMU)

➢ Loan amount upto Rs. 10 lacs to Micro units of Mfg, Services and also Retail trade units. OD facility of Rs.10,000/- sanctioned under PMJDY a/c's.

➢ Loan to SHG collateral free (3rd party guarantee permitted) between Rs. 10 lacs & Rs. 20 lacs during financial year 2020-21, irrespective of the availability of Group guarantee of SHG members.

➢ The first 3% of the amount in default will be borne by the Bank.

➢ The amount in default over and above 3% will be settled by the Fund to the extent of 75% on pro-rata basis subject to receipt of Auditors certificate confirming eligible claim amount.

➢ Necessary information to be sent to NCGTC on quarterly basis.

➢ Guarantee Fees- 1% + Risk Premium.

➢ If any amount due to the Fund remains unpaid beyond a period of 30 days from the end of FY in which it was recovered, interest shall be payable to the Fund by the lending institution at 2% above the prevailing repo rate for the period for which payment remains outstanding after the expiry of the said period of 30 days.

NATIONAL EQUITY FUND (NEF)

To provide equity support both for setting up new projects in Tiny / Small Enterprises sector and for expansion and modernization by existing units.

- **Project Cost:** Not exceed Rs 50 lac (including margin money for WC).
- **Promoters' Contribution:** Minimum 10% of project cost.
- **Nature of Assistance:** Equity type Assistance in the form of soft loan.
- **Amount:** 25% of project cost or Rs.10 lac per project, whichever is lower.
- **Interest:** Service charge @ 1% p.a. to be retained by bank. Interest @ 6% would be recovered by SIDBI.
- **Repayment Period:** 7 Years (including moratorium upto 3 years).
- **Security:** No security/collaterals is to be insisted upon for the soft loan.

MISCELLANEOUS

- **Composite Loan:** To small enterprises under PS upto Rs. 1 crore.
- **No processing / inspection fee**, service charges, penal interest in PS advances upto Rs. 25,000. Above Rs. 25,000 discretion of the bank.
- **Banker & Business Correspondents relation:** Principal and Agent.
- **Drip Irrigation:** It is ideal for horticulture – sparse spaces.
- **Sprinkler Irrigation:** It is ideal for dense crops.
- **Business Facilitator:** BF cannot handle cash transactions.
- **Minority communities:** Include Sikhs, Muslims, Christains, Zoroastrian, Buddhists and the latest to be added is Jains.
- **Cluster based approach:** It is applicable for SME. It minimizes the risk.
- **Kharif Crop:** Sown in July and harvested in October. Major crops Jowar, Rice, Bajra, Maize, Cotton, Sugarcane, Groundnut, Soyabean etc.
- **Rabi Crop:** Sown in October and harvested in March and April. Major crops Wheat, Jowar, Gram, Tur, Rapeseed, and Mustard.
- In terms of the recommendations of the PM's Task Force on MSMEs, banks advised to achieve a 20% year-on-year growth in credit to MSEs, a 10% annual growth in the number of micro enterprise accounts and 60% of total lending to MSE sector as on preceding March 31st to Micro enterprises.

CREDIT GUARANTEE FUND TRUST FOR MICRO & SMALL ENTERPRISES (CGTMSE)

The CGTMSE scheme was formulated for the purpose of providing guarantees in respect of credit facilities extended by lending institutions to the borrowers in Micro and Small Enterprises (MSEs). Recently, guarantee coverage has been made available to select NBFCs and SFBs.

ELIGIBLE BORROWER: New or existing Micro and Small Enterprises to which credit facility has been provided by the lending institution without any collateral security and/or third party guarantees. However, a "Hybrid / Partial Collateral Security" product allowing guarantee cover on credit facilities having collateral security, for the portion of credit facility not covered by collateral security (unsecured portion), has also been introduced.

In the partial collateral security model, the MLIs will be allowed to obtain collateral security for a part of the credit facility, whereas the remaining part of the credit facility, can be covered under Scheme of CGTMSE. CGTMSE will however, have pari-passu charge on the primary security as well as on the collateral security provided by the borrower for the credit facility.

ELIGIBLE MEMBER LENDING INSTITUTIONS (MLIS): Scheduled, Commercial Banks, RRBs, NBCs, SFBs and Scheduled UCBs

TENURE OF GUARANTEE COVER: The maximum period of guarantee cover from Guarantee sanction date in case of Term Loan will be the tenure of the loan and in case of Working Capital for a period of 5 years or block of a 5 years where WC alone are extended or loan termination date, whichever earlier. However, a review would be undertaken after each block of 5 years by CTMSE before renewal of the guarantee coverage in case of WC.

ELIGIBILITY: Credit facilities (Fund based as well as Non fund based) extended by MLI(s) to a single eligible borrower in the Micro and Small Enterprises sector not exceeding Rs.200 lakh and **increased to Rs. 500 lakh per borrower (guarantees approved on or after April 01, 2023).** without any collateral security and third party guarantees are covered.

AMENDMENT: CGTMSE has decided to align Trading activity (MSE Retail Trade and Wholesale Trade) with other activities. Hence ceiling of credit guarantee cover increased from Rs. 100 lakh to Rs.200 lakh to all guarantees approved on or after December 01, 2022.

SETTLEMENT OF CLAIM: For preferring any claim on the Trust, there shall be a lock-in-period of 18 months from either the date of last disbursement of loan to the borrower or the date of the guarantee cover coming into force in respect of the particular credit facility, whichever is later. The lender shall, lodge claim in respect of defaulted amount, which has become NPA, immediately after recall of loan and initiation of recovery proceedings by way of legal action .

➢ The Trust shall pay 75% of the guaranteed portion in default subject to maximum of 50/75/80/85 % of the guaranteed amount (based on the credit facility guaranteed), on preferring of claim by the lender. The balance 25% of the defaults or guaranteed cap amount, as the case may be, will be paid on conclusion of recovery proceedings by the lender. In case of delay beyond 30 days CGTMSE will pay penalty at bank rate. The recoveries thereafter by the banks are to be passed on to CGTMSE in full after netting off the legal expensive within 30 days. In case of delay bank has to pay penalty @ 4% over Bank rate.

EXTENT OF COVER

Category (including Trading activity)	Maximum Extent of Guarantee Coverage		
	Upto Rs.5 Lakh	Above Rs. 5 Lakh & upto Rs. 50 lakh	Above Rs. 50 Lakh & upto Rs. 200 lakh
Micro Enterprises	85%	75%	75%
MSEs located in North East Region (incl. Sikkim); J&K & Ladakh	80%		
Women entrepreneurs / SC / ST / Persons with disability / MSE's promoted by Agniveers / MSE's situated in Aspirational Distt./ ZED certified MSE's	85%		
All other category of borrowers	75%		

➢ Additional premium of 15% will be charged on the applicable rate to MLIs who exceed the pay-out threshold limit more than thrice in last 5 years. This premium will be applicable for all such guaranteed accounts irrespective of the sanction date.

➢ In case of default, the lenders would exercise the right to take over the assets. However, the Trust would have the priority in appropriation of sale of assets by the lenders before making the final settlement of the claim.

➢ The amount realised from the sale of assets (residual recovery) must first be credited in full by the lenders to the Trust before they can finally claim the remaining 25% of the default / guaranteed cap amount.

● **WAIVER OF LEGAL PROCEEDINGS:**

The initiation of legal proceeding as a pre-condition for invoking of guarantees is waived in respect of those credit facilities covered where the aggregate outstanding does not exceed **Rs.10 lakh per claim.**

➢ As per existing process, the claim is settled in 2 instalments i.e 75% of eligibility amount as first instalment and balance 25% of eligibility amount as second instalment. In this connection, CGTMSE has decided to offer MLIs two options for claim settlement at the time of claim lodgment for cases where waiver of legal action is applicable.

Option 1: **Single instalment** of claim settlement with **reduced extent of guarantee by 15%**. e.g., in respect of extent of coverage of 75%, reduced coverage would be 60%, 80% would be 65% and likewise.

Option 2: Existing claim settlement process **in two instalments** i.e. 75% of eligibility amount as first instalment and balance 25% as second instalment. **For legal waiver accounts,** second instalment of claim - would be **settled after three years** from the date of settlement of 1st claim or OTS whichever is earlier. The above modification shall be applicable in respect of those claims lodged on or after April 01, 2023.

● **ANNUAL GUARANTEE FEES (AGF):**

In pursuit of revamp of Credit Guarantee Scheme to increase flow of credit to MSEs, it has been decided to bring down the cost of guarantee. Further,

guarantee fees to Retail / Wholesale Trade is made at par with other activities.

The revised the Annual Guarantee Fee (AGF) structure under Credit Guarantee Scheme (CGS -I) applicable to all the guarantees approved/ renewed on or after April 01, 2023 is given in the table below.

Slab	Revised Standard Rate (% pa)
Up to Rs.10.00 Lakh	**0.37**
Above 10 lakh upto 50 lakh	**0.55**
Above 50 lakh upto 1 crore	**0.60**
Above 1 crore upto 2 crore	**1.20**
Above 2 crore upto 5 crore	**1.35**

*Above 2-5 crore AGF @ 1.35 will be charged on the guaranteed amount for the first year and on the outstanding amount for the remaining tenure of the credit facility.

ADDITIONAL CONCESSION / RELAXATION IN GUARANTEE FEE TO FOLLOWING CATEGORIES			
Category	Social Category (Weaker Section/ Underserved Section)	Geographic	MSE Status
Target Group	Women/SC/ST/ Person with disability (PwD)/ Agniveers	NER incl. Sikkim, UT of J&K, & UT of Ladakh (Upto Rs.50 Lakh)/ Aspirational Distt.	ZED Certified
Relaxation/ Concession	10%	10%	10%

MLIs with better portfolio would be given the discount of 10% in standard rate whereas MLIs with high risk associated would be charged maximum risk premium upto 70% of SR.

CGTMSE has notified that obtaining URN by the borrower shall be made mandatory for getting guarantee coverage under Credit Guarantee Scheme of CGTMSE for all the guarantee applications lodged on or **after January 16, 2023**.

- **MODIFIED AGF STRUCTURE:** AGF would be calculated on outstanding amount as on 31st Dec. against each guarantee account. Bank to feed / upload data (i.e. total disbursements, cumulative principal etc.) for arriving at the outstanding amount.

Cost of AGF: The Credit Guarantee Scheme leaves it to the discretion of the MLIs to decide about passing on the incidence of Annual Guarantee Fee to the borrower or alternatively they may decide to bear it themselves.

Fee for using search history module in system: The information on total exposure of the borrower under CGTMSE and status of the account (NPA/Standard) made available in the CGTMSE prtal to the bank. In this regard, CGTMSE will charge a nominal feeo f Rs. 50/- per successful search for the information displayed.

SELF HELP GROUP (SHG)

OBJECTIVES: To evolve a supplementary credit strategy for reaching the rural poor and to encourage banking activities, both thrift as well as credit.

ESSENTIAL REQUIREMENTS: Group should have been in active existence at least for a period of 6 months. The group may be informal or formal (registered). The group should have successfully undertaken savings and credit operations from its own resources for a period of six months.

- **Size:** Preferably between 10 to 20 members (difficult areas–5 to 20).
- **Revolving Fund:** SHGs can be sanctioned revolving fund where there is bank linkage of at least for 6 months in the ratio of 1:1 to 1:4 ratio.
- **Subsidy:** Minimum Rs.5000 and max Rs.10,000, being equal to group corpus. Additional subsidy of Rs.10,000 is available as 2nd dose for SHG showing promise.
- **Margin:** Savings are considered as margin. No requirement of collateral security.
- **Repayment:** 3-10 years.
- **Refinance:** 100% refinance from NABARD.
- Under SHG all the members of the group must be from BPL, however, a maximum of 20% in general and 30% in exception can be from marginally above poverty line.

JOINT LIABILITY GROUP

A Joint Liability Group (JLG) is an informal group for the purposes of availing bank loan either singly or through the group mechanism against a mutual guarantee.

- **Size:** 4 to10 individuals coming together.
- **Beneficiaries:** Tenant farmers, share croppers, oral lessees, farmers with small holdings without proper land records.
- **Maximum Finance:** Per person-Rs.50,000 and per Group - Rs.5 lakh.
- **Refinance:** 100% from NABARD.
- The JLG members offer an undertaking to the bank that enables them to avail loans. Unlike SHGs, which are more process oriented, the management of the JLG is simple with little or no financial administration within the group.

NABARD FARMER CLUB PROGRAMME

Members: Minimum 10, no upper limit. All villagers except willful defaulters can become member of the club. NABARD provides assistance upto Rs.10,000 p.a. for 3 years per club. (Break up : Formation & Maintenance Expenses-2,000, Base Level Orientation Training Programme - 5,000, Meet with Experts (2 Programmes in a year) - 3,000.

PRADHAN MANTRI FASAL BIMA YOJANA

A new crop insurance scheme called Pradhan Mantri Fasal Bima Yojana (PMFBY) has been launched which will be administered under the Ministry of Agriculture and Farmers' Welfare, Govt. of India. This scheme would replace the existing schemes of National Agricultural Insurance Scheme & Modified National Agricultural Insurance Scheme from Kharif 2016.

- PMFBY will provide a comprehensive insurance cover against failure of the crop thus helping in stabilizing the income of the farmers and encourage them for adoption of innovative practices. The Scheme can cover all Food & Oilseeds crops and Annual Commercial / Horticultural Crops for which past yield data is available and for which requisite number of Crop Cutting Experiments (CCEs) will be conducted being a part of the General Crop Estimation Survey (GCES).

PREMIUM:

PMFBY would be available to the farmers at very low rates of premium.

- **Rabi Crop: Maximum upto 1.5%;**
- **Kharif Food crops, Pulses and Oilseeds: Upto 2%;**
- **Annual Horticulture/ Commercial Crops: Upto 5%.**

 # The difference between premium and the rate of Insurance charges payable by farmers shall be shared equally by the Centre and State.

OTHER HIGHLIGHTS:

- The scheme is compulsory for loanee farmers availing Seasonal Agricultural Operational Loans / Kisan Credit Card holders for the notified crops in notified areas and 100% coverage of loanee farmers in notified areas growing notified crops is required to be done.
- This scheme is voluntary for non-loanee farmers, but there is a prerequisite in the scheme that they should have an a/c to be eligible for coverage. The seasonality discipline shall be same for loanee and non-loanee farmers.
- This scheme would provide insurance cover for all stages of the crop cycle including post-harvest risks in specified instances.
- The scheme will be implemented by AIC and other empanelled private general insurance companies. Selection of Implementing Agency (IA) will be done by the concerned State Government through bidding.
- The existing State Level Co-ordination Committee on Crop Insurance (SLCCCI), Sub-Committee to SLCCCI, District Level Monitoring Committee shall be responsible for proper management of the Scheme.
- War and nuclear risk is not covered.
- In case majority of insured crops of a notified area are prevented from sowing / planting due to adverse weather conditions then such insured crops will be eligible for indemnity claims upto maximum of 25% of the sum-insured.
- Losses due to localized perils (Hailstorm, landslide & inundation) and Post-Harvest losses due to specified perils, (Cyclone / Cyclonic rain & Unseasonal rains) shall be assessed at the affected insured field of the individual insured farmer.

- Three levels of Indemnity, viz., 70% (high risk), 80% (moderate risk) and 90% (low risk) corresponding to crop Risk in the areas shall be available for all crops.
- The Threshold Yield (TY) shall be the benchmark yield level at which Insurance protection shall be given to all the insured farmers in an Insurance Unit. Threshold of the notified crop will be moving average of the yield of last seven years excluding yield upto two notified calamity years multiplied by Indemnity level.
- Sharing of Risk: The liability of Insurance companies shall be upto 350% of total premium collected (farmer share plus Govt. subsidy) or 35% of total Sum Insured (SI) of all the Insurance companies combined, whichever is higher. The losses beyond this shall be met by equal contribution from Central and State Governments.
- State Govt. to use Smart phone apps for video/image capturing CCEs process and transmission with CCE data on a real time basis. The cost of using technology etc. will be shared between Central Govt. and State/U.T. Govts. on 50:50 basis.
- On account payment upto 25% of likely claims will be provided, if the expected yield during the season is likely to be less than 50% of normal yield. The claim amount will be credited electronically to the individual Insured Bank Account.

'NO DUE CERTIFICATE'

Keeping in view the technological developments and the different ways available with banks to avoid multiple financing, banks are advised to dispense with obtaining 'No Due Certificate' from the individual borrowers (including SHGs & JLGs) in rural and semi-urban areas for all types of loans including loans under Govt. Sponsored Schemes, irrespective of the amount involved unless the Govt. Sponsored Scheme itself provides for objention of 'No Dues Certificate'.

DIRECT LENDING TO NON-CORPORATE FARMERS

The RBI has directed banks to ensure that their overall direct lending to non-corporate farmers does not fall below the system-wide average of the last three years achievement. They should also continue to maintain all efforts to reach the level of 13.5 percent direct lending to the beneficiaries who earlier constituted the direct agriculture sector.

RBI has advised that the system-wide average of the last three years achievement with regard to overall direct lending to non-corporate farmers under priority sector lending for the FY 2021-22 was 12.73% and for 2022-23, it will be 13.78% of ANBC or CEOBE, whichever is higher. (erstwhile target for direct lending to agriculture sector).

PADHO PARDESH SCHEME OF INTEREST SUBSIDY

Central Scheme to provide Interest Subsidy on Education Loans for overseas studies pursued by students belonging to Minority Communities. Full interest subsidy upto the period of moratorium (i.e., Course Period + One year or 6 months after getting job whichever is earlier). Total income from all sources of the employed candidate or his / her parents/guardians in case of unemployed candidate shall not exceed Rs. 6 lacs per annum.**(Scheme discontinued from 2022-23)**

TYPES OF MORTGAGES (SEC 58 OF TPA)

	EQUITABLE	SIMPLE	CONDITIONAL SALE	ENGLISH
	Deposit of Title Deeds	Simple Mortgage	Nil	Nil
U/S OF TPA	58 (f)	58 (b)	58 (c)	58 (e)
ALLOWED IN CITIES	Bombay, Calcutta & Madras or any notified towns.	All over India	All over India	Bombay, Calcutta, Madras & notified towns
MINIMUM LOAN	No Limit	Rs 100/-	Rs 100/-	Rs 100/-
METHOD OF CREATION	Deposit of Title Deed	Writing of Mortgage Deed	Writing of Mortgage Deed	Writing Mortgage Deed
WITNESS	Not reqd.	Two	Two	Two
PURPOSE	Securing debt or performance of obligation	Securing debt / performance of obligation	Securing debt or performance of obligation	Securing debt / performance of obligation
MORTGAGOR	Only Borrower/ Guarantor	Only borrower/ Guarantor	Only borrower/ Guarantor	Only borrower / Guarantor
REGISTRATION	Not required	Required	Required	Required
POSSESSION AND OWNERSHIP	Not Transferred	Borrower binds himself personally. Not Transferred	Not transferred but conditional sale. On default it becomes absolute sale.	Title is transferred. On adjustment of loan, re-transfer takes place.
RIGHTS ON INCOME OF PROPERTY	With Mortgagor	With Mortgagor	With Mortgagor	With Mortgagor
RIGHT OF FORECLOSURE	No Right	No Right	Mortgagee's Right	No Right
RIGHT OF REDEMPTION	Yes, available to mortgagor	Yes, available to mortgagor	Yes, available to mortgagor.	Yes, but not ownership
LEGAL NOTICE	Required	Required	Required	Required
LIMITATION	12 years	12 years	12 years	12 years

DIFFERENT TYPES OF CHARGES

TYPE OF CHARGE	TYPE OF SECURITY	EXAMPLE OF SECURITY
MORTGAGE	Immovable securities	Land, Building, Machinery embedded to the earth.
PLEDGE	Moveable assets	RM, Shares & Stocks, Gold, Jewellery.
HYPOTHECATION	Moveable assets	RM, Motor vehicles, Standing crops.
LIEN	Securities which are already in possession of the creditor.	Goods and securities except actionable claims and money.
ASSIGNMENT	Actionable claims	LIC policies, Book Debts, FDR, NSC, KVP.

CHARGE ON SECURITIES

	HYPOTHECATION	PLEDGE	MORTGAGE
Meaning	It is an extended concept of pledge. It is a charge on moveable securities with debtor having the possession of same.	Bailment of goods as security for securing payment of debt and interest. U/s 172 of Contract Act.	Transfer of interest in some specific immovable property for securing existing or a future debt (Sec-58 of TPA)
Legal Statute	Defined in Sec 2(n) of SARAFESI Act.	Indian Contract Act	Transfer of Property Act
Applicable	Moveable goods	Moveable goods	Immovable property
Types of Assets covered	Stocks, Vehicles, Plant & Machinery, Standing crops.	Shares,Materials or other goods not embedded to the earth.	Land & Bld, P&M embedded to the earth.
Possession	With the Borrower	With the Bank	With the Debtor
Rights of Bank to Sell	Can convert the hypothecation into pledge.	Can sell after giving a notice	Can sell
Nature of Charge	Floating or Equitable	Fixed	Fixed

LIMITATION ACT

DESCRIPTION	Years	PERIOD TO RUN FROM
1) Money deposited payable on demand	3 Yrs	When the demand is made
2) Demand Loan	3 Yrs	When the loan is made
3) Term Loan	3 Yrs	From the due date of each installment.
4) Demand Bill	3 Yrs	From the date of bill
5) Dishonoured Usance Bill	3 Yrs	From the due date of payment
6) Cash Credit – (Hyp)	3 Yrs	From the date of document (DRN).
7) Cash Credit – (Pledge)		No limitation period.
8) By a Mortgagee - a) For Foreclosure	30 Yrs	When the money secured by the mortgagee becomes due.
b) For Possession of immovable property mortgaged by Bank – Mortgage suit	12 Yrs	From the date when the mortgagee money has becomes due.
9) Right of Redemption	30 Yrs	From the date of adjustment of loan
10) Execution of Decree	12 Yrs	From the date of decree
11) Fixed Deposit	3 Yrs	After the date of presentation for payment by the depositor
12) Fraud	3 Yrs	From the date the fraud is detected

- If in the limitation act, no limitation period is mentioned for any application, the limitation period will be deemed to be three years.

e-INVOICING TURNOVER THRESHOLD UNDER GST LOWERED TO ₹5 CRORE FROM AUGUST 1, 2023:

The Finance Ministry has notified that businesses with a turnover of ₹5 crore or more will be required to adopt e-invoicing from August 1, 2023.

As per Rule 48(4) of CGST Rules, notified class of registered persons have to prepare invoice by uploading specified particulars of invoice (in FORM GST INV-01 on Invoice Registration Portal (IRP) and obtain an Invoice Reference Number (IRN). After the 'e-invoicing' process, the invoice copy containing the IRN (with QR Code) issued by the notified supplier to buyer is commonly referred to as 'e-invoice' in GST.

WILFUL LOAN DEFAULTERS

Definition of Wilful Default: A willful default would be deemed to have occurred if any of the following events is noted:

- The unit has defaulted in meeting its payment / repayment obligations to the lender even when it has the capacity to honour the said obligations.
- The unit has defaulted in meeting its payment / repayment obligations to the lender and has diverted the funds for other purposes / siphoned off the funds.
- Where the borrower has disposed-off or removed the movable / immovable fixed assets charged to the bank without the consent of the bank.

Cut-off limits: Outstanding balance of Rs.25 lakh or more, would attract the penal measures.

Penal Measures: Additional facilities should not be granted by any bank / FI to the listed wilful defaulters for floating new ventures for a period of 5 years from the date the name of the wilful defaulter is published in the list of wilful defaulters by the Reserve Bank of India. The lending institutions shall formulate a policy with the approval of their Board of Directors which clearly sets out the criteria based on which the decision to publish the photographs of a person will be taken by them so that the approach is neither discriminatory nor inconsistent.

SARFAESI

- Repayment of above Rs. 1 lac will be covered by the provisions of this Act.
- Bank after giving 60 days demand notice, in writing, can take the possession of the assets. If the borrower makes an objection, the bank to give the reply within 15 days.
- Publication in 2 newspapers (one regional and one national) : TWICE i.e, first time, with in 7 days after taking possession and second time: 30 days sale notice.
- The possession notice is to be published within 7 days from the date of taking possession.
- The District Magistrates shall pass suitable orders in an application for assistance for taking possession of the secured assets, under new Sec. 14, within 30 days. This can be extended by another 30 days after recording the reasons thereof.
- Bank will give 30 days sale notice before selling the assets. Sale is confirmed by Bank on receipt of 25% amount immediately and balance in 15 days.
- Sale at reserve price to be fixed by bank. Below reserve price, consent of borrower is required. Where the sale of an immovable property, for which a reserve price has been specified, has been postponed for want of a bid of an amount not less than such reserve price, it shall be lawful for any officer of the secured creditor, if so authorised by the secured creditor, to bid for the immovable property on behalf of the secured creditor at any subsequent sale.

- In case of consortium/multiple banking, if the banks want the case to be referred to be taken to SARFAESI, consent of 60% of creditors by value is essential.
- A/c in which borrower has already paid 80% of the total dues to the Bank is not eligible.
- Any borrower or any person aggrieved by the action of the secured creditors can file a petition to the concerned Debt Recovery Tribunal within 45 days.
- DRTs would have to dispose - off cases within 60 days of any application being filed before it by borrowers whose assets are taken possession of by lenders. If the DRTs fails to take a decision within 4 months, the bank or the borrower can prefer an appeal to the DRAT.
- Both bank and the borrower can appeal to DRAT against decision of DRT within 30 days.
- To ensure that such appeal provision is not abused to delay or defeat the proceedings for recovery, a provision has been made requiring the defaulting borrower to deposit 50% of the amount claimed with the DRT before filing an appeal to the DRAT against orders of the Debt Recovery Tribunals. The DRAT has been given the powers to lower the upfront payment; but in no case can the stipulated payment be less than 25% of decreed amount.

AMENDMENTS TO THE SARFAESI ACT, 2002

- The SARFAESI Act allows secured creditors to take possession over a collateral, against which a loan had been provided, upon a default in repayment. This process is undertaken with the assistance of the District Magistrate and does not require the intervention of courts or tribunals. The Bill provides that this process will have to be completed within 30 days by the District Magistrate.
- In addition, the Bill empowers the District Magistrate to assist banks in taking over the management of a company, in case the company is unable to repay loans. This will be done in case the banks convert their outstanding debt into equity shares, and consequently hold a stake of 51% or more in the company.
- The Act creates a central registry to maintain records of transactions related to secured assets. The Bill creates a central database to integrate records of property registered under various registration systems with this central registry. This includes integration of registrations made under Co's Act, 2013, Registration Act, 1908 and Motor Vehicles Act.
- The Bill provides that secured creditors will not be able to take possession over the collateral unless it is registered with the central registry. Further, these creditors, after registration of security interest, will have priority over others in repayment of dues.

SUMMARY OF TIME PERIODS IN SARFAESI ACT

Notice before possession U/s 13(2) of SARFAESI Act	60 days
Reply to objection by borrower	15 days
Borrower can file petition in DRT against possession notice.	45 days
Appeal to DRAT against decision of DRT	30 days
Notice before Sale	30 days
Period of balance payment 75% by the buyer of assets	15 days

LOK ADALAT

- Lok Adalat set up under Legal Services Authority Act. Cases upto Rs. 20 lac are referred to Lok Adalat. Cases above Rs. 20 lacs referred to Lok Adalat formed under DRT.
- The advantage of Lok Adalat is consented decree, no court fee, no appeal, expeditious disposal of the case.
- Accounts which have been settled by Lok Adalat should be adjusted within 1 to 3 years.
- Permanent Lok Adalats are also empowered to entertain the matters of civil & criminal in nature, provided, the value of such civil matter falls within Rs. 1 crore and the criminal dispute is compoundable in nature.
- If there is a default in complying with the orders of Lok Adalat, then the orders can be executed through ordinary Civil Court or any other appropriate forum having jurisdiction.

DEBT RECOVERY TRIBUNAL (DRT)

- Consitituted under recommendation of Narasimhan Committee in 1991 under Recovery of debts Due to Banks and Financial Institutions Act, 1993.
- The Act applies to whole of India. There are 39 DRTs in the country.
- DRT is applicable in case of debts / claims outstanding amounting to Rs. 20 lac and above due from any person by a bank.
- On receipt of applications, DRT issues summons within 30 days to defendants and within 30 days party can file written statement of his defence. This period can be extended by another 15 days by the PO in exceptional cases. For non-compliance of order, the borrower can be detained in prison upto 3 months.
- DRT is expected to dispose off the application within 2 hearings. DRAT is expected to dispose-off the appeal within 6 months from the date of receipt of appeal.
- DRT headed by Presiding officer (Qualified to be a Distt. Judge and appointed by central govt. for five years, maximum age 65 years), assisted by Registrar and Recovery Officer.
- DRAT headed by Chairperson (Qualified to be High court Judge).
- After the decree is passed by DRT, the bank / financial institution will apply for issuance of recovery certificate. The recovery certificate will be routed through Recovery Officer of DRT.
- The appeal against an order of Recovery Officer to DRT can be requested within 30 days from the date of order. The Tribunals have to resolve the claim within six months. The appeal against the judgment of DRT can be made **within 30 days** only to DRAT (Debt Recovery Appellate Tribunal) from the date of receipt of copy of the order made by Tribunal. For filling lawsuit, as per Section 21 of the tribunal, 50% of the amount as determined by the tribunal has to be deposited by the appellant and the Chairperson may reduce up to not less than 25% of the deposit amount.
- The minimum Court Fee for Rs. 10 lac is Rs. 12,000 and thereafter Rs.1,000 for every Rs. 1 lac or part thereof with maximum up to Rs. 1.5 lac.
- Limiting period of review of DRAT order is thirty days now (earlier 60 days). Under DRAT the word Presiding Officer has been substituted by Chairperson.

FORMAT OF BALANCE SHEET
(FOR RATIO ANALYSIS

LIABILITIES	Rs	ASSETS	Rs
NETWORTH / EQUITY • Share Capital / Partners' capital / Paid-up Capital / Owners funds • Reserves (General Reserve, Capital Reserve, Revaluation Reserve and Other Reserves) (These funds are brought in by the promoters as their investment in business or generated by and retained in business) LONG TERM LIABILITIES • Term Loan (Banks or Institutions) • Debentures / Bonds • Unsecured Loans • Fixed Deposits • Other Long Term Liabilities (Only those liabilities to be taken which are not due for payment within 12 months from date of the balance sheet) CURRENT LIABILITIES • Bank Working Capital limits such as Cash Credit/ Overdraft, bills, export credit. • Sundry / Creditors / Bills payable • Short duration loans or deposits • Expenses payable • Provisions against various items (Only those liabilities to be taken which are due for payment within 12 months from date of the balance sheet)		FIXED ASSETS (Such as Land and Building, Plant Machinery etc.) • Original value • Less deprecation • Net value or book value or written down value (These are purchased for long term use and are depreciated every year) NON CURRENT ASSETS • Investment in non quoted shares/ securities • Investments in long term nature in associate or sister firms or companies. • Old stocks or old /disputed book debts • Long term security deposits. • Other misc. assets which are not current or fixed assets CURRENT ASSETS • Cash/Bank balance including fixed deposits with banks • Marketable / quoted govt. or other securities. • Book debts / Sundry debtors / debtors / bills receivables. • Stocks / Inventory such as raw material, stock in process, finished goods, • Stores & spares meant for regular consumption • Advance payment of taxes, pre-paid expenses • Loan & Advances recoverable within 12 months. INTANGIBLE ASSETS Patents, Good will, Debit balance of P & L account, Preliminary or preoperative expenses	
Total		Total	

IMPORTANT NOTES:

- Liabilities have Credit balance and Assets have Debit balance.
- Current Liabilities are those liabilities, which have either become due for payment or shall fall due for payment within 12 months date of balance sheet.
- Current Assets are those assets, which undergo change in their shape/form within 12 months. These are also called working capital or gross working capital.
- Net Worth and Long-term liabilities are also called Long term sources of funds.
- Current Liabilities are also known as Short-term sources of funds.
- Long term liabilities & short-term liabilities are also called Outside liabilities.
- Current Assets are Short-term use of funds.
- Assets other than Current Assets are Long-term use of funds.
- Installment of term loan payable in 12 months are to be taken as current liability only for calculation of Current Ratio and Quick Ratio only and only.
- If there is profit, it shall become part of net worth under the head reserves and if there is loss it will become part of intangible assets.
- Investments in Govt. securities to be treated current only if these are marketable and due. Investments in other securities are to be treated current if they are quoted. Investment in allied / associated / sister units or firms to be treated as non-current.
- Bonus shares are issued by capitalisation of general reserves and as such do not affect the Net Worth. With Rights Issue, change takes place in net worth & also Current ratio.

TRADING, MANUFACTURING AND PROFIT & LOSS ACCOUNT

TRADING & MANUFACTURING ACCOUNT (Part – 1)

Payment / Expenses (Dr)	Receipt / Income (Cr)
Opening Stock	Sales after returns
Purchases	Closing Stocks
Trading and manufacturing expenses	
Gross Profit (In case of Profit)	Gross Loss (In case of Losses)

PROFIT & LOSS ACCOUNT (Part – 2)

Debit	Credit
Administrative expenses	Gross profits
Selling expenses	Other income
Financial expenses	
Misc. expenses	
Net Profit (In case of Profit)	Net Losses (In case of Losses)

PROFIT & LOSS APPROPRIATION ACCOUNT (Part – 3)

Debit	Credit
Tax provision / payment	Net profits
Dividend provision / payment	
Bonus provision / payment	
Other provision / payment	
Balance transferred to Balance Sheet	

RATIO ANALYSIS

FINANCIAL RATIOS CAN BE CLASSIFIED IN FOUR BROAD HEADS:

1) **LIQUIDITY** - These ratios reflect the ability to meet current dues out of short-term assets.
2) **SOLVENCY**- Extent of dependence on outside liabilities and the feasibility of meeting them if need arises.
3) **ACTIVITY** - Efficiency of the unit in utilizing present available resources.
4) **PROFITABILITY** - Capacity of the unit to generate profits and its rate of return.

(I) LIQUIDITY RATIOS

a) CURRENT RATIO = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$ (Ideal Ratio = 1.33 : 1)	b) QUICK RATIO = $\frac{\text{Quick Assets}}{\text{Current Liabilities}}$ (Ideal Ratio of 1 :1)

c) NET WORKING CAPITAL = Current Assets – Current Liabilities

2) SOLVENCY RATIOS

a) DEBT-EQUITY RATIO = $\frac{\text{Long-term Liabilities}}{\text{Tangible Net Worth}}$ (Ideal Ratio = 2 : 1)	b) TOL / TNW = $\frac{\text{Term Liabilities + CL}}{\text{Tangible Net Worth}}$
c) PROPRIETARY RATIO = $\frac{\text{Tangible Net Worth}}{\text{Tangible Assets}}$ x 100	
d) DEBT SERVICE COVERAGE RATIO (DSCR) = $\frac{\text{Profit after tax + Depreciation + Annual Interest on long term loans}}{\text{Annual interest on long term loans \& liabilities + Annual instalment payable on long term loans}}$ (Ideal DSCR Ratio = 2)	

3) ACTIVITY RATIOS

a) Asset Turnover Ratio = $\frac{\text{Net Sales*}}{\text{Tangible Assets}}$ (* Net sales = Gross sale – Excise duty)
b) Stock Turnover Ratio = $\frac{\text{Average Inventory*}}{\text{Sales}}$ X 52 for weeks or 12 for months Average Inventory = Opening Stock + Closing Stock / 2

c) Debtors velocity Ratio = $\dfrac{\text{Average Debtors *}}{\text{Sales}}$ X 52 for weeks or 12 for months * Average Debtors = Opening Debtor + Closing Debtor / 2
d) Raw Material Holding = $\dfrac{\text{Average Raw Materials}}{\text{Raw Material Consumption}}$ X 52 for weeks or 12 for months
e) Stock in Process holding = $\dfrac{\text{Average stock in process}}{\text{Cost of Production}}$ X 52 for weeks or 12 for months
f) Finished Goods holding = $\dfrac{\text{Average Finished Goods}}{\text{Cost of Sales}}$ X 52 for weeks or 12 for months
g) Creditors Velocity Ratio = $\dfrac{\text{Average Creditors}}{\text{Purchases}}$ X 52 for weeks or 12 for months

4) PROFITABILITY RATIOS:

a) Gross Profit Ratio = $\dfrac{\text{Gross Profit}}{\text{Net Sales}}$ X 100	b) Net Profit Ratio = $\dfrac{\text{Net Profit}}{\text{Net Sales}}$ X 100
c) ROI* = $\dfrac{\text{Net Profits}}{\text{Total Tangible Assets}}$ x 100 * Return on Investments	d) ROE * = $\dfrac{\text{Net Profit}}{\text{Tangible Net Worth}}$ x 100 * Return on Eqbity

- Cash Profit = Net profit + Depreciation (Also called Cash accrual or Cash generation)
- Cash Loss = Net loss – Depreciation

BREAK - EVEN POINT ANALYSIS

Break-even point is that level of production or sales at which unit incurs no profit no loss.

Variable expenses:	Fixed and Semi-Fixed Expenses:
a) Raw materials b) Packing materials c) Consumable stores and spares d) Any others	a) Rent, Insurance etc. b) Wages and salary c) Repairs and maintenance d) Depreciation e) Adm & Financial expenses

B.E.P. (Sales) = $\dfrac{\text{Fixed Costs}}{\text{Contribution}}$ x Sales Realisation Contribution = Sales – Variable Cost or Contribution = Profit + Fixed Cost.
B.E.P (Volume) = $\dfrac{\text{Fixed Costs}}{\text{Contribution}}$
P / V Ratio = $\dfrac{\text{Contribution per unit}}{\text{Sales per Unit}}$ X 100 = ____ % The purpose of the CVP analysis is to study the cushion available in the profitability of a project to withstand shortfalls in the expected results owing to uncertainties.

COMPARATIVE ANALYSIS OF FINANCIAL STATEMENTS

SITUATION	INDICATIONS	GUIDELINES
Increase in Sales	A favourable trend	Ascertain that increase is qualitative and not on account of inflation
Decrease in Sales	Not a favourable trend	May be on account of under-trading
Increase in Profits	A favourable indication	Ascertain the portion of profits retained in the business
Decrease in profits	Not a favourable trend	Ascertain the reasons.
Increase in Debtors	A favourable indication if accompanied by a higher % of an increase in sales. Check-up the bad & doubtful debts, if any. May indicate unsatisfactory recovery.	Ascertain the reasons Check up the age of debtors Delete debtors above 6 months Obtain confidential report from the banker.
Decrease in Debtors	A favourable indication It should be accompanied by a growth in sales. It indicates effective sales management.	Sudden decrease in debtors may indicate diversion of funds.
Increase in Creditors	Indicates better credit terms with the suppliers Increase should be accompanied by an proportionate increase in business	A mere increase in creditors may indicate that the borrower is not in a position to generate enough funds needed for the payment to trade creditors
Increase in Capital	It indicates additional funds brought in by the unit - a favourable indication. Ascertain the purpose for increase & its ultimate utilisation.	Ensure that the increase is not due to capitalization of reserves.
Increase in Fixed Assets	Is it on account of replacement of machinery in the normal business? Is it for the sake of expansion / diversification plans.	Ensure that the capital expenditure is acceptable to the banker and there is no diversion of funds.
Decrease in Provisions	Ensure that taxation & other liabilities are met out of earning for the last year.	
Increase in Inventory	Ensure that the increase in inventory is for production.	Ensure that increase in inventory, i.e., not for speculative purpose.
Depreciation	Ensure that Depreciation has been charged.	Ensure that there is no change in the depreciation method.
Reduction in Term Loans	It indicates a favourable position. The borrower has got repayment capacity.	Ensure that repayment is not out of working capital funds.

CASH FLOW & FUNDS FLOW

CASH FLOW STATEMENT: Cash flow statements are useful in planning short-term operations of the business. It excludes all transactions not involving cash, like changes in the finished goods to account receivable. Similarly, if, loan is converted into equity, it will not be seen in the cash flow. Usually cash flow statement is prepared by cash receipt and cash disbursement methods like: all cash to be received and disbursed during the period (say, a month).

FUNDS FLOW STATEMENT: Funds flow statement is dealing with the items of the balance sheet. Funds flow indicates as how the funds were generated and utilized over a period of time. Funds flow statements are useful for planning long-term operations.

WORKING CAPITAL MANAGEMENT

THREE METHODS FOR ASSESSING WORKING CAPITAL LIMITS

a) NAYAK COMMITTEE
b) TANDON COMMITTEE
c) CASH BUDGET METHOD

a) NAYAK COMMITTEE: Annual Projected Turnover method.

Eligibility: Small Enterprises having aggregate sanctioned working capital fund based (WCFB) limits up to Rs.5 crore and Non-SSI upto Rs. 2 crore.

Based on the guidelines received from Dept. of Financial Services under Ministry of Finance & IBA as well as to provide timely & adequate credit assistance to MSME units, following changes have been announced.

REVISED GUIDELINES

FOR MSE BORROWERS: Method of Computation:

● Working Capital Requirement	31.25% of annual projected turnover.
● Working Capital Limit	25% of the projected turnover.
● Margin	6.25% of their annual turnover.

FOR MSE BORROWERS WITH 25% DIGITAL TRANSACTIONS: Method of Computation:

● Working Capital Requirement	37.5% of annual projected turnover.
● Working Capital Limit	30% of the projected turnover.
● Margin	7.5% of their annual turnover.

QIS: The borrowers availing fund based working capital limits of Rs. 50 lac or more (raised to Rs. 100 lac w.e.f. Jan 1994).

Form I : Estimates of the ensuing quarter.
Form II : Actual of previous quarter, and
Form III: Half yearly performance.

b) TANDON COMMITTEE:

1st METHOD

Total Current Assets (TCA)	370
Less: OCL (CL other than short term bank borrowings)	150
WORKING CAPITAL GAP (WCG)	220
Less: 25% of WCG	55
Maximum Bank Borrowings permissible (MPBF)	165
Current Ratio	1.17:1

2nd METHOD

Total Current Assets (TCA)	370
Less: OCL (CL other than short term bank borrowings)	150
WORKING CAPITAL GAP (WCG)	220
Less: 25% of TCA	92
Maximum Bank Borrowings permissible (MPBF)	128
Current Ratio	1.33:1

QIS: The borrowers availing fund based working capital limits of Rs. 500 lac or more have to submit QIS.

Form I (estimates of ensuing quarter),
Form II (actual of previous quarter, and
Form III (half yearly performance).

c) CASH BUDGET METHOD: On the basis of cash flows statements, Gaps are identified on quarterly basis. Applicable to seasonal industry, software, construction, film production etc.

BANK GUARANTEE

Framework of Bank Guarantee is based on the legal concept of guarantee as contained in the Contract Act. Sec 126 of Indian Contract Act, 1872 defines a contract of guarantee as a contract to perform the promise, or discharge the liability of a third person in case of his default.

TYPES OF GUARANTEES

- **Performance Guarantees;**
- **Financial Guarantees;**
- **Deferred Payment Guarantees.**

PERFORMANCE GUARANTEES:

These Guarantees are issued in respect of performance of a contract or obligation. In the event of non-performance or short performance of the obligations, the Bank will be called upon to make good the monetary loss arising out of the non-fulfillment of the guarantee obligation.

FINANCIAL GUARANTEES:

In certain contracts entered into by the customer of the Banks with Government Department / quasi-Government Department / large companies, there is a provision for payment of certain amount of money against the Bank guarantee to enable the customer to carry out the performance of the contract. The amount of the guarantee comprises the amount which is made available to the customer by the beneficiary in advance.

DEFERRED PAYMENT GUARANTEES:

These guarantees normally arise in the case of purchase of machinery or such other capital equipment by customers (from suppliers in India or outside). The manufacturer of the machinery supplies the machinery against a cash payment of say, 10% or 15%, and gets accepted bills / hundis for the balance amount by the purchaser's bank or alternatively for the balance amount, the seller of the machinery gets guarantees issued.

IMPORTANT POINTS:

- In case of bank guarantee the liability of the bank is contingent liability i.e. it may or may not arise. It is shown in the foot note on the balance sheet.
- Guarantee given for series for transaction is called continuing guarantee.
- Generally the maximum period of BG is upto 10 years.
- The limitation period under bank guarantee is 3 years (30 years in case of govt.) from the date of invocation or stipulated expiry date whichever is earlier.
- The appraisal of term loan proposal and DPG proposal is similar. The difference between term loan and DPG is outlay of funds.

MISCELLANEOUS TERMS:

- **Right of Subrogation:** Guarantor stepping into the shoes of the creditors on discharging the liability of principal borrower.
- **Assignment:** Assignment is a transfer of right or interest over actionable claims. The transfer of claims is called as assignor and the transfree is called the assignee. The same is covered under Section 130 of TPA.
- **Right of Redemption:** It is a right of mortgagor to get back his mortgage property on repayment of loan. The limitation period is 30 years.
- **Right of Foreclosure:** It is a right of mortgagee for debarring the mortgagor to get back the mortgage property. It is available in mortgage by way of conditional sale. The limitation period is 30 years.
- **Trust Receipt:** It is a document containing promise from the borrower to hold goods or their sale proceeds as trustee for the banker.
- **Floating or Equitable Charge:** It is a charge on goods hypothecated.
- **Pari-passu Charge:** A charge in which all the creditors will have equal priority in proportion to the amount of their advance.
- **Stamp Receipts:** For money receipt with value above Rs.5,000 - Re 1.
- **Deferred Payment Guarantee:** DPG is a financial guarantee.
- **Lok Adalat can:** Summon the witnesses, Take evidence on oath, Initiate ex- party proceedings, and determine the court procedure.
- **Railway Receipt, Bill of lading, AWB etc, are Negotiable as per:** Transfer of Property Act 1882, Section 137 (These are title to goods under the Sale of Goods Act).
- **Micro, Small and Medium Enterprises is under:** Ministry of Micro Small & Medium Enterprises.

NPA GUIDELINES

- **TERM LOANS:** Interest and / or installment remain overdue for a period of more than 90 days.
- **CC / OVERDRAFT:** Account remains 'out of order' for a period of more than 90 days.
- **BILLS ACCOUNT:** BP or BD remains overdue / unpaid for a period of more than 90 days.
- **AGRICULTURE:**

Short Duration Crop (Crop season up to one year): If the installment or interest overdue for two crop seasons.

Long Duration Crop (Crop season longer than one year): If the instalment or interest overdue for one crop seasons.

ASSETS CLASSIFICATION

GROUP	DEFINITION
STANDARD	Accounts which are in order
SUB STANDARD	Accounts which have been classified as NPAs for a period not exceeding 12 months
DOUBTFUL	Sub standard accounts, which have remained NPAs for a period exceeding 12 months
LOSS ASSETS	Accounts which have become unrealizable, where losses have been identified by the bank / internal / external auditor / RBI Inspectors.
SMA	Special mentioned assets: RBI has instructed banks to identify a/cs which are overdue/out of order but not NPA & maintain a special watch.

<table>
<tr><th>CATEGORY</th><th colspan="5">PROVISION REQUIREMENTS</th></tr>
<tr><td rowspan="2">STANDARD ASSETS</td><td colspan="2">Direct Agri & SME sectors</td><td>All other loans & Advances</td><td>Commercial Real Estate</td><td>Teaser Rate – Housing Loan</td></tr>
<tr><td colspan="2">0.25%</td><td>0.40%</td><td>1%</td><td>2%</td></tr>
<tr><td rowspan="2">SUB-STANDARD ASSETS</td><td colspan="2">Secured Sub-standard</td><td colspan="3">Unsecured Sub-standard : Where the value of security is not more than 10% right from the beginning i.e. ab-initio</td></tr>
<tr><td colspan="2">15% of outstanding dues</td><td colspan="3">25% of outstanding dues</td></tr>
<tr><td rowspan="4">DOUBTFUL ASSETS</td><td colspan="2">D1</td><td colspan="2">D2</td><td>D3</td></tr>
<tr><td colspan="2">First 12 months</td><td colspan="2">Next 24 months</td><td>> 36 months</td></tr>
<tr><td>RVS</td><td>Shortfall in Security</td><td>RVS</td><td>Shortfall in Security</td><td rowspan="2">100% Uniformly</td></tr>
<tr><td>25%</td><td>100%</td><td>40%</td><td>100%</td></tr>
<tr><td>LOSS ASSETS</td><td colspan="5">The entire assets should be written off. If permitted to remain in the books for any reason, 100% of the outstanding should be provided for.</td></tr>
</table>

NPA ON ACCOUNT OF EROSION IN THE VALUE OF SECURITY:

- If RVS is less than 50%, the account to be shifted directly to Doubtful category.
- If RVS is less than 10% of the O/S, the a/c to classified as loss asset.
- Standard Assets provisions are covered under Tier II capital under the head other liabilities & provisions (Schedule 5).
- As per the Income recognition norms, interest is recognized on realization/cash system basis.
- State Govt. guaranteed advances – 90 days norms. Central Govt. guaranteed advances when govt. repudiates its guarantee.
- A/cs with Stock Statement overdue for 3 months: Out of Order and thereafter 90 days – NPA.
- Accounts in which Renewal / reviewal overdue for 6 months : NPA
- Classification of accounts is borrower-wise and not account-wise. In case of consortium advances, each bank to classify the account on the basis of its own record of recovery.
- Accounts which have rescheduled / restructured should be upgraded after 12 months from the due date of first installment.
- Commercial Real Estate - Residential Housing (CRE-RH) Provision is 0.75%
- Restructured accounts under Standard category (restructured after 01.06.13) 5.00%
- As per revised guidelines issued by RBI the infrastructure loan accounts which are classified as sub-standard assets will attract a provisioning of 20 percent instead of the current provision prescription of 25 percent, provided the branches have in place an appropriate mechanism to escrow the cash flows and also have a clear and legal first claim on these cash flows.
- Provisioning for non-reporting to CRILC -Secured Sub-Standard upto 6 months is15%. Above 6 months to 12m is 25%.
- Banks can upgrade the credit facilities extended to borrowing entities whose ownership has been changed, outside SDR, to standard category upon such change in ownership.
- Change of ownership may be by way of sale by lenders, to new promoters. In such case Quantum of provision against said account shall not be reversed except in case of satisfactory performance during specified period.'
- Asset classification benefit will be available to the lenders provided they divest a minimum of 26% of the shares of the company to the new promoters within the stipulated time line of 18 months and the new promoters take over management control of the company. This is subject to the condition that lenders along with the new promoters should hold at least 51% of paid up equity capital of the borrower company.
- At the time of takeover by a new promoter, bank may refinance the existing debts, without treating the exercise as restructuring subject to banks making provisions for any diminution in the fair value of existing debt.

ACCELERATED PROVISIONING

In cases where banks fail to report SMA status of the accounts to CRILC or resort to methods with the intent to conceal the actual status of the accounts or evergreen the account, banks will be subjected to accelerated provisioning for these accounts and/or other supervisory actions as deemed appropriate by RBI. The current provisioning requirement and the revised accelerated provisioning in respect of such NPAs are as under:

Asset Classification	Period as NPA	Current Provisioning (%)	Revised Accelerated Provisioning (%)
Sub-standard (secured)	Up to 6 months	15	No change
	6 months to 1 year	15	25
Sub-standard (unsecured ab-initio)	Up to 6 months	25 (other than infrastructure loans)	25
		20 (infrastructure loans)	
	6 months to 1 year	25 (other than infrastructure loans)	40
		20 (infrastructure loans)	
Doubtful I	2nd year	25 (secured portion)	40 (secured portion)
		100 (unsecured portion)	100 (unsecured portion)
Doubtful II	3rd & 4th years	40 (secured portion)	100 (secured portion)
		100 (unsecured portion)	100 (unsecured portion)
Doubtful III	5th year onward	100%	100%

ADs CATEGORY-II - ONLINE SUBMISSION OF FORM A2

RBI had issued guidelines to all AD Category-I banks for compilation of R-Returns and reporting under the Foreign Exchange Transactions – Electronic Reporting System (FETERS). The facility of online submission of Form A2 was allowed to AD banks offering Internet banking facilities to their customers.

The RBI has now decided to extend the facility of online submission of Form A2 to following AD Category-II entities.

a) Upgraded Full Fledged Money Changers (FFMCs);
b) Selected Regional Rural Banks (RRBs);
c) Urban Cooperative Banks (UCBs) and other entities.

FOREIGN EXCHANGE

TYPES OF FOREIGN EXCHANGE TRANSACTIONS

a) **Inter-Bank Transactions:** Forex transaction between two banks / Institutions.

b) **Merchant Transactions:** Sale or purchase transactions with the customers.

TYPES OF ACCOUNTS

NOSTRO ACCOUNTS: "OUR ACCOUNT WITH YOU". It is a foreign currency account maintained by a bank in domestic country with a bank in foreign country.

VOSTRO ACCOUNT: "YOUR ACCOUNT WITH US". Rupee a/c of a foreign bank in India.

LORO ACCOUNT: "THEIR ACCOUNT WITH YOU....." Account of a third bank abroad.

MIRROR ACCOUNTS:

Dummy accounts maintained by banks to know actual position of Nostro accounts for reconciliation purposes with the foreign correspondent banks. We may call it a pass-book of our accounts maintained with the correspondents.

FOREIGN EXCHANGE MANAGEMENT ACT (FEMA)

FEMA was implemented in India w.e.f. 1-6-2000. FEMA defines certain terms such as:

- **Capital Account Transaction:** One that alters the assets or liabilities outside India of a persons resident in India or assets or liability in India, of a person resident outside India.
- **Current Account Transaction:** Other than a capital account transaction and include payments due in connection with foreign trade, other current business services and short term banking and credit facilities in ordinary course of business.
- **Resident as per FEMA:** Any person residing in India for more than 182 days during the course of preceding financial year will be taken as resident in India.

EXCHANGE RATES MECHANISM

DIRECT METHOD:

A given number of units of local currency per unit of foreign currency e.g. US$ 1= Rs.82 – 82.20 (Principle: BUY LOW- SELL HIGH)

INDIRECT METHOD:

A given number of units of foreign currency per given units of local currency e.g. Rs.100 = US$ 1.2195 – 1.2165 (BUY HIGH – SELL LOW). In India, with effect from 2nd August 1993 Direct quotations are being used.

METHOD OF DELIVERY OF FOREX

READY (T)	The transaction settled on the same day. Also known as 'value today'.
TOM (T+1)	The delivery of foreign exchange/currency to be made on the day next to the date of transaction.
SPOT (T+2)	Exchange of currencies take place two days after the date of contract – SPOT RATE.
FORWARD (> T+2)	When the delivery has to take place at a date farther than the spot date, then it is a forward transaction – FORWARD RATE.

INDO – NEPAL REMITTANCE SCHEME

Maximum: Rs.2 Lakh per remittance.

a) As per the earlier guidelines, banks shall accept remittances by way of cash from walk-in customers or non-customers. The ceiling of Rs.50,000 per remittance with a maximum of 12 remittances in a year shall, however, continue to apply for such remittances. Cash not to taken from a/c holder.

b) The charges for transactions up to Rs.50,000 shall continue as per extant guidelines. For transactions beyond Rs.50,000, the charges prescribed by SBI shall apply.

Charges : Originating branch to charge Rs. 5 per transaction.

SBI Charges: Rs.20 per transaction to be shared with NSBL Rs.10 each. If beneficiary is not maintaining a/c with NSBL then additional amt to be recovered.

Upto 5,000 : Rs. 50: **More than 5000:** Rs. 75

LETTER OF CREDIT (LC)

Letter of Credit is an unconditional undertaking given by the issuing Bank on behalf of Importer in favour of the Exporter, undertaking to make payment on presentation of documents as per the terms and conditions of LC. LCs are governed by UCPDC.

UCP – 600

- **UCPDC** - Uniform Customs and Practices for Documentary Credits – 600 (UCP600), prepared by ICC, Paris by revising the UCPDC-500, is implemented w.e.f. July 01, 2007.
- **ARTICLE 5:** Banks deal with documents and not with goods and service.
- **ARTICLE 14:** Specifies the standards for examination of documents. As per new UCP the number of days available for examination of documents is reduced to 5 banking days.
- **ARTICLE 14:** A presentation must be made by or on behalf of the beneficiary not later than 21 calendar days after the date of shipment but not later than the expiry date of the credit.
- **ARTICLE 28:** If there is no indication in the credit of the insurance coverage required, the amount of insurance coverage must be at least 110% of the CIF value of goods. Unless otherwise stipulated, the insurance policy should be in the currency of LC.

- If the word 'about', 'approximate' is used in connection with amount or quantity or unit price stated in the LC, tolerance of + – 10% is allowed.
- A tolerance of + – 5% is allowed where LC does not state quantity in terms of a stipulated numbers of packing units or individual items and total amount of the drawings does not exceed the amount of LC.
- **ARTICLE 36:** This article deals with disclaimer on "force majeure". Now "acts of terrorism" has been added in this article.
- With or Without Recourse LCs: Where the beneficiary does not hold himself liable, the credit is said to be without recourse. As per RBI guidelines, banks should normally not open LCs and negotiate bills bearing the 'without recourse' clause.
- On or About- Means an event is to occur during 5 calendar days - plus or minus, both start and end dates included.
- The terms 'first Half' and 'second half' of a month means 1st to the 15th and the 16th to the last day of the month, all dates inclusive.
- Beginning, middle and end of a month means, the 1st to 10th, the 11th to the 20th and the 21st to the last day of the month, all dates inclusive.

INCOTERMS (INTERNATIONAL COMMERCIAL TERMS)

TERM	Contract terms	Explanation
FOB	Free on Board	**The seller delivers the goods only. The buyer will bear the costs and risks.**
CFR	Cost & Freight	**The Seller delivers the goods and pays the Freight**
CIF	Cost, Insurance & Freight	**The seller delivers goods duly insured and pays the Freight**
C & I	Cost & Insurance	**The seller delivers the goods and Insures the same**

MAIN PARTIES TO LC

Importer/Applicant	Buyer or Importer on whose request the LC is opened.
Opening Bank	LC Opening Bank, which opens LC on behalf of importer.
Beneficiary	Party in whose favour LC is opened i.e. Exporter of goods.
Advising Bank	Bank authorised by the opening bank, to advise the LC to the Beneficiary. It is liable for ensuring the genuineness of LC.
Confirming Bank	Bank authorised by the Issuing Bank to confirm the LC. By confirmation, this Bank adds its guarantee & undertakes to negotiate the documents as per the terms of LC.
Negotiating Bank	The Bank, which negotiates the documents. It may be Confirming Bank or any other Bank.

IMPORTANT TYPES OF LCs

Sr	TYPES	SHORT DESCRIPTION
1	**Revocable LC**	An LC which can be amended or cancelled by the issuing bank without prior notice to the beneficiary before the documents are negotiated by the Negotiating Bank. Dispensed in UCP-600.
2	**Irrevocable LC**	An LC in which issuing bank gives a definite, absolute and irrevocable undertaking to honour its obligations provided the beneficiary complies with all the terms and conditions of LC. Once an irrevocable LC is issued, it cannot be revoked / amended, without the consent of the beneficiary.
3	**Irrevocable Confirmed LC**	An irrevocable LC where another bank adds its confirmation. In such a credit, Confirming Bank gives definite undertaking to pay / accept / negotiate if the terms and conditions of the credit are complied with.
4	**Transferable LC**	An LC containing a specific clause that it is transferable. This gives the beneficiary the right to request the bank to make the credit available in whole or in parts to one or more beneficiaries. Transferable LC can be transferred in part or full, but it can be transferred only once.
5	**Red-Clause LC**	An LC in which a provision exists for allowing pre-shipment credit to the beneficiary for procurement / manufacturing of goods to be exported.
6	**Green Clause LC**	An LC in which apart from provision of allowing pre-shipment credit the issuing bank also has to arrange for storage / warehouse facility.
7	**Back-to-back LC**	Back to Back LC involves two irrevocable credits. Firstly, the inward credit (original LC) and the second called as outward credit (back-to-back), which is opened on the basis and security of the original LC.
8	**Stand-By LC**	An LC very similar to bank guarantee by issuing bank, guaranteeing payment and / or performance (no movement of goods).
9	**Revolving LC**	Under these LCs, the part amount, which has been utilized, is automatically restored & is available for further use. These are meant for more than one dealing. In such LC, roll-over of transactions take place.
10	**Restricted LC**	LC in which negotiation is restricted to a particular bank.

TYPES OF BILL OF LADING
On-board Bill of Lading: It acknowledges that the goods have been put on board of the shipment. This is considered safe for negotiation purpose.
Clean Bill of Lading: Which bears no superimposed clause or notation that expressly declares the defective condition of goods or packaging. Best for negotiation purpose.
Claused Bill of Lading: Which bears superimposed clause or notation that expressly declares the defective condition of goods or packaging. Ship owner can disclaim his liability on loss to goods in case of such BL. Hence, it is not considered safe.
Long form Bill of Lading: All terms & conditions of carriage are given on the document.
Through Bill of Lading: That covers the entire voyage covering several modes of transport. There is no guarantee of the carriers for safe carriage of goods.
Short form Bill of Lading: Terms and conditions of carriage are not printed on the bill of lading but a reference to another document containing term and conditions is made.
Chartered party Bill of Lading: Issued to Chartered party who has hired space in vessel.
Straight Bill of Lading: Non-negotiable BL that is issued directly in the name of the consignee, where the goods will be delivered to the consignee.

- **LINE OF CREDIT:** A Line of Credit is a facility of credit provided mainly by Exim Bank and other commercial banks in India, to foreign Govts, institutions and banks. Foreign buyers of Indian goods can import, usually by opening LC with nominated banks under line of credit. Though the line of credit is extended to foreign Govts., or banks, but it is the buyers in a large number who can import goods from India under the facility.
- **NOMINAL EXCHANGE RATES:** Nominal Exchange Rate is the price of one currency in terms of number of units of some other currency. This is determined by fiat in a fixed rate regime and by demand and supply for the two currencies in the foreign exchange rate market in a floating rate regime. It is 'nominal' because it measures only the numerical exchange value, and does not say anything about other aspects such as the purchasing power of that currency.
- **REAL EXCHANGE RATE:** The Real Exchange Rate is the nominal exchange rates multiplied by the price indices of the two countries. This means the market price level of goods and services is given by indices of inflation. So if the price level in the US is higher than the price level in India, then the real exchange rate of the rupee versus the dollar will be greater than the nominal exchange rate.

FOREX FACILITIES FOR RESIDENTS

As per FEMA resident Indians are permitted to buy or sell foreign exchange from Authorised Dealers (ADs) and full-fledged money-changer (FFMC) for permitted current account transactions.

ADs can accept payment in cash up to Rs. 50,000 against sale of foreign exchange. Release of forex beyond the limits mentioned below require RBI approval.

A) **PRIVATE VISITS:** For Private Visits abroad, other than to Nepal and Bhutan, any resident individual can obtain foreign exchange up to an aggregate amount of **USD 2,50,000.**

B) **GIFT / DONATION:** Any Resident Individual / entity (trust; company; partnership firm, etc.), may remit up-to **USD 2,50,000** in one financial year as gift to a person residing outside India or as donation to an organization outside India.

C) **GOING ABROAD ON EMPLOYMENT:** A person going abroad for employment can draw foreign exchange up to **USD 2,50,000** per financial year.

D) **EMIGRATION:** A person going abroad on emigration can draw foreign exchange up to the amount prescribed by the country of emigration or **USD 250,000.**

E) **MAINTENANCE OF CLOSE RELATIVES ABROAD:** A resident individual can remit up-to **USD 250,000** per financial year towards maintenance of close relatives abroad.

F) **BUSINESS TRIP:** For Business trips to foreign countries, resident individuals / individuals having proprietorship firms can avail of foreign exchange up to **USD 2,50,000** in a financial year irrespective of the number of visits undertaken during the year.

G) **MEDICAL TREATMENT ABROAD:** ADs may release foreign exchange up to an amount of **USD 2,50,000** or its equivalent, on the basis of self-declaration in Form A2.

H) **STUDENTS FOR PURSUING STUDIES ABROAD:** ADs may release foreign exchange up to **USD 2,50,000** or its equivalent to resident individuals for studies abroad on self-declaration basis in Form A2.

I) **SMALL VALUE REMITTANCES:** ADs may release foreign exchange not exceeding **USD 25,000** or its equivalent, for all permissible current account transactions.

j) **RUPEE GIFTS:** Resident individuals can now make rupee gifts within the overall limit of $ 2,50,000 per financial year as permitted under the LRS to an NRI / PIO who is a close relative.

FOREX ACCOUNTS FOR RESIDENT INDIANS

PARTICULARS	RFC ACCOUNT	RFC (D)	EEFC
Who can open an Account	For returning Indians, i.e. those who were NRI / PIO. for minimum 1 year	Resident Individuals	A person resident in India which includes individuals, firms, Co's
Sources of Funds	By foreign inward remittances, transfer of FCNR (B) deposits, NRE deposits.	Foreign exchange acquired while on a visit to any place outside India	Status Holder" Exporter Individual, Professional – All can retain upto 100% #.
Type of A/c	SB, CA, TD	Current Account	Current A/c
Currency of A/c	Discretion of bank	Discretion of bank	Discretion of bank
Loans & OD	Not permitted	Not permitted	Not permitted
Interest	Banks can decide	No interest	No Interest

- All the above three accounts are fully repatriable.

Subject to the condition that the sum total of the accrual in the a/c during the calendar month should be converted into rupees on or before the last day of the succeeding calendar month after adjusting for utilization of the balance for approved purposes or forward commitments.

NON - RESIDENT INDIAN (NRI) ACCOUNTS

A) **NON-RESIDENT INDIAN (NRI):** An NRI is a person holding Indian Passport:

a) Gone abroad for a gainful employment or business or vocation, or for any other purpose indicating an indefinite period of stay outside India.

b) Working abroad on foreign assignments / employed by IMF / IBRD / UNO / UNESCO etc.

c) Employed in Central/State Govt. & PS Undertakings & deputed abroad on temporary assignments or for temporary period.

B) **PERSON OF INDIAN ORIGIN (PIO):** PIO means a citizen of any country other than Bangladesh or Pakistan, if:

a) He held Indian passport at any point of time,

b) Whose parent/s or grand parent/s was citizens of India (undivided India),

c) Foreign National Spouse of a either NRI or PIO is given the status of a PIO.

BANK A/C FOR NON - RESIDENT INDIANS

		NRO	NRE	FCNR (B)
1.	Who can Open	NRI / PIO	NRI / PIO	NRI / PIO
2.	Currency of A/c	Indian Rupee	Indian Rupee	All convertible currencies
3.	Source of Funds	Local or Funds from abroad	Funds from abroad	Funds from abroad
4.	Accounts	SB/CA / RD/ TD	SB/ CA / RD/TD	Only TDs
5.	Min. / Max. period	As per domestic term deposit	Min 1 Yr Max 10 Yrs @	Minimum– 1 Yr Maximum–5 Yrs
6.	Joint A/c with a) Close Relatives b) Non-Residents	Permitted Permitted	Permitted (F or S) Permitted	Permitted (F or S) Permitted
7.	Nomination	Permitted	Permitted	Permitted
8.	Repatriation : Principal/Interest	Non-Repatriable #	Freely Repatriable	Freely Repatriable
9.	Tax Benefits (TDS)	Applicable	Exempted from all taxes	Exempted from all taxes
10	**INTEREST RATE:** **NRO/NRE:** Banks are free to determine interest rates on both SB&TD of maturity of 1 year & above under NRE a/cs. Banks are free to determine their interest rates on SB under NRO A/c. **TERM DEPOSIT: 1 year to less than 3 years:** Overnight Alternative Reference Rate (ARR) for the respective currency/ Swap plus 250 basis points **3 years and above upto and including 5 years:** Overnight ARR for the respective currency / Swap plus 350 basis points			

Power of Attorney in NRO:

(i) Local payments in rupees including eligible investments
(ii) Remittance outside India of current income of the a/c holder net of applicable taxes.

Power of Attorney Holders in NRE a/c allowed all transactions except the following:

- Credit foreign currency notes & traveler's cheques in NRE a/c cannot be accepted.
- Repatriation except in favour of the Principal i.e. the NRI account holder.

Loan against NRE / FCNR deposits:

No Ceiling now. (Earlier ceiling limit Rs. 1 crore)

NRI / PIOs allowed to transfer repatriable funds from their NRO Account within the ceiling limit of US $ 1 million per financial year after payment of eligible taxes.

SPECIAL NON-RESIDENT RUPEE ACCOUNT – (SNRR)

a) Any person resident outside India, having a business interest in India, may open SNRR account with an AD for the purpose of putting through bona fide transactions in rupees. The SNRR account should carry the nomenclature of the specific business for which it is in operation.

b) The operations in the SNRR account should not result in the account holder making available foreign exchange to any person resident in India against reimbursement in rupees or in any other manner.

c) The SNRR account shall not bear any interest.

d) The tenure of the SNRR account should be concurrent to the tenure of the contract / period of operation.

e) The balances in the SNRR account shall be eligible for repatriation.

f) Transfers from any NRO account to the SNRR account are prohibited.

g) All transactions in the SNRR account will be subject to payment of applicable taxes in India.

h) SNRR account may be designated as resident rupee account on the account holder becoming a resident.

i) The amount due / payable to non-resident nominee from the account of a deceased account holder, shall be credited to NRO account of the nominee with an AD / authorised bank in India.

j) The transactions in the SNRR a/cs shall be reported to the RBI.

k) Opening of SNRR a/cs by Pakistan & Bangladesh nationals and entities incorporated in Pakistan and Bangladesh requires prior approval of RBI.

IMPORTANT ASPECTS ON FOREX

- The Forex purchased should be utilized within 180 days. If not used, it has to be surrendered to an Authorized Person.
- Currency notes / coins up to US $ 3000: Resident Indians going abroad can avail a maximum of US $ 3,000 in currency notes (cash) and balance in the form of TCs / bank Demand Draft.
- **Exceptions:** (a)Iraq & Libya - USD 5,000 or its equivalent; (b)Iran, Russian Federation & other Republics of CIS - Entire foreign exchange in the form of foreign currency notes or coins.
- Indian resident going abroad can obtain forex from ADs 180 days prior to the date of his departure.
- **DOMESTIC CURRENCY:** A resident Indian is allowed to take INR of denomination of Rs.100 or lesser denomination, to Nepal and Bhutan, without any limits. For denominations of Rs. 500 and Rs.2,000, the limit is Rs 25,000. Further, all residents and non-residents except citizens of Pakistan and Bangladesh can take out Indian currency notes up to Rs. 25,000 while leaving the country. The Indian currency can be of any denomination.
- **Unspent Foreign Exchange:** Foreign exchange up to US $ 2,000 in form of foreign currency notes or TCs can be retained by Resident Indians (Optional). The balance (over and above USD 2,000) has to be necessarily surrendered to ADs within 180 days, both in case of currency notes and TC's, to be either deposited in a RFC (Domestic) account or converted back into Indian rupees as per the choice of the customer.

- **Currency Declaration Form (CDF):** A person (including a Resident) can bring any amount of Forex from abroad, which may be in the form of currency notes or traveler cheques. However, if the amount exceeds US $ 10,000 or its equivalent in TC/Currency and / or the value of foreign currency notes exceeds US $ 5,000 or equivalent in any foreign currency, he / she has to declare his holdings to the Custom authority at the port / Airport of arrival, in CDF.
- An Individual resident may borrow a sum not exceeding US $ 2,50,000 or its equivalent from close relatives residing outside India subject to the condition that the minimum maturity period of loan is one year - free of interest and the amount of loan is received by way of inward remittances through normal banking channels/ NRE / FCNR (B) a/c of NRI.
- The limit for export of goods by way of gifts is Rs Five lakh per annum.
- NRIs may subscribe to the NPS governed and administered by the Pension Fund Regulatory and Development Authority, provided such subscriptions are made through normal banking channels and the person is eligible to invest as per the provisions of the PFRDA Act.

LIBERALIZED REMITTANCES SCHEME (LRS)

- Resident Indian individuals are permitted to freely remit up to USD 2,50,000 per financial year (over all limit) for any current or capital a/c transactions or a combination of both.
- Further, to facilitate ease of transactions, all the facilities (including private / business visits) for release of exchange/remittances for current account transactions available to resident individuals, shall now be subsumed under the overall limit of USD 250,000 under LRS w.e.f. May 26, 2015.
- The LRS for Resident Individuals is available to all resident individuals including minors. In case the remitter is a minor, the LRS declaration form should be countersigned by the minor's natural guardian. Remittances under the facility can be consolidated in respect of family members subject to individual family members complying with the terms of scheme.

EXCHANGE CONTROL RELATING TO EXPORTS

EXPORT IMPORT CODE NUMBER (IEC): Every person / firm / company engaged in export business has to obtain an IEC Number issued by the Director General of Foreign Trade. It has 10 digits.

DECLARATION OF EXPORTS: RBI has dispensed with the requirement of declaring the export of goods/software in the Statutory Declaration Form (SDF) in case of exports taking place through the Electronic Data Interchange (EDI) ports, as the mandatory statutory requirements contained in the SDF have been subsumed in the shipping bill format.

a) **EXPORT OF GOODS THROUGH CUSTOMS PORTS:** Export Declaration Form (EDF), at Non- Electronic Data Interchange (EDI) port.

b) **EXPORT OF GOODS/ SOFTWARE DONE THROUGH EDI PORTS:** The shipping bill shall be submitted in duplicate to the Commissioner of Customs concerned. The manner of disposal of EC copy of Shipping Bill shall be the same as that for EDF.

c) **EXPORT OF GOODS THROUGH POST:** Postal Authorities shall allow export of goods by post only if the original copy of the EDF has been countersigned by an AD.

d) **SOFTEX Forms:** All software exporters can file single as well as bulk SOFTEX form in the form of a statement in excel format to the competent authority for certification. Since the SOFTEX data from STPI/SEZ are being transmitted in electronic format to RBI, the exporters have to submit the SOFTEX form in duplicate as per the revised procedure.

In case of export of software in other than physical form, the date of invoice is deemed as "date of export" and in all other cases, the date of shipment is deemed as "date of export ".

TIME LIMIT FOR EXPORTERS TO RECEIVE EXPORT PAYMENTS:

- Normal Export of Goods and Software – 9 Months.
- Status holders, 100% EOU, EHTP, Software Technology park (STP) etc permitted to realize and repatriate within a period of 9 months from the date of export. For units in SEZ: 9 months.
- Extension to be sought from AD in form ETX.
-

PACKING CREDIT

- **CONCEPT:** Any loan, advance or any other credit granted to an exporter for financing the purchase, processing, manufacturing or packing of goods prior to shipment.
- **BASIS:** LC or Confirmed order in favour of exporter on FOB value. Where domestic cost of production is higher than FOB value, advance can be upto 150% of FOB value.
- **Type of Account:** Order to order basis, or Running a/c facility in genuine cases to exporters having very good past record.
- **Choice of Currency:** INR or US $, Pound Sterling, Yen, Euro.
- **Period of Credit:** EPC allowed by banks normally for 270 days. Concessional rate of interest allowed up to 270 days only.
- **Liquidation of Credit:**
- EPC advance to be converted into Post shipment advance/ out of balances in EEFC A/c. First in first out basis in case of running a/c.

REPORTING TO RBI: Half-yearly statement in Form XOS giving details of all export bills outstanding beyond six months from the date of export as at the end of June and December.

SUBMISSION OF EXPORT DOCUMENTS:

The exporter has to submit duplicate copy of GR form along with the shipping documents to the AD within 21 days of shipment, otherwise the B/L will become stale B/L. The ADs will report the export bills accepted for collection or negotiation to RBI every fortnight on 'ENC' along with 'R' return.

CRYSTALLIZATION OF EXPORT BILLS: Crystallization is a process of conversion of foreign currency liability of the customer into Rupee liability. Authorised dealers are now free to fix the period after which crystallization has to take place after taking in to consideration various risk factors.

DIAMOND DOLLAR ACCOUNTS

a) Firms and Co's dealing in purchase/sale of rough or cut and polished diamonds / precious metal jewellery plain, or studded with / without diamond and / or other stones, with a track record of at least 2 years in import / export of diamonds / colored gemstones / diamond and colored gemstones studded jewellery / plain gold jewellery.

b) Having an average annual turnover of Rs.3 crores or above during the preceding three licensing years (licensing year is from April to March).

c) They may be allowed to open not more than five Diamond Dollar Accounts with their banks

GOLD CARD FOR EXPORTERS

ELIGIBILITY: Exporters of good track record whose accounts have been classified as 'Standard' continuously for a period of 3 years and there are no irregularities / adverse features. The scheme may not be applicable to those exporters who are blacklisted by ECGC or included in RBI's defaulter's list / caution list or making losses for the past 3 years or having overdue export bills in excess of 10 per cent of the previous year's turnover.

FIXATION OF CREDIT LIMIT:

- Need-based finance on annual turnover basis with a liberal approach. 'In-principle' limits will be sanctioned for a period of 3 years with a provision for automatic renewal.
- Banks will consider granting term loans in foreign currency in deserving cases out of their FCNR (B), RFC, etc. funds.
- A stand-by limit of not less than 20% of the assessed limit may be additionally made available to facilitate urgent credit needs.

IMPORT

Import trade is regulated by DGFT under Ministry of Commerce & Industry.

Import Licence: ADs may freely open L/C and allow remittances for import of goods unless they are included in the negative list requiring license.

Evidence of Import: In case of all imports, where value of foreign exchange remitted / paid for import into India exceeds USD 100,000 or equivalent, ADs to ensure submission of evidence of import in the form of Exchange Control copy of the Bill of Entry, post parcel wrapper, Chartered Accountant Certificate (in software imports) as the case may be.

BEF Statement (Half-yearly Statement to RBI): Statement of Overdue imports exceeding USD 100,000 as on 30th June / 31st Dec. each half year within 15 days.

Crystallization of Import Bills: **(FEDAI-Guidelines)** on the 10th day after the date of receipt of documents in case of demand bills and on due date in case of Usance bills, at Bills Selling Rate/contracted rate as the case may be.

ADVANCE REMITTANCES: **a)** The Cut off for making advance remittances without the backing of LG / SBLC increased to USD 5,00,000 for Services and US$ 2,00,000 for Goods.

a) For advance remittances exceeding USD 5,00,000, or its equivalent, Banks require an unconditional, irrevocable standby Letter of Credit or a Bank Guarantee from an international bank / AD Category – I bank in India.

DIRECT RECEIPT OF IMPORT DOCUMENTS: Documents can now be received for permitted imports if the value of import bill does not exceed USD 300,000 if KYC norms complied & for permitted imports etc).

APPLICATION OF EXCHANGE RATES

SELLING RATES	TRANSACTIONS
TT Selling Rate	A) Outward remittance in foreign currency (TT, MT, PO, DD).
	B) Cancellation of purchase e.g. Bills / DD etc.
	C) A forward purchase contract is cancelled.
Bill Selling Rate	Transaction involving transfer of proceeds of import bills.
TC / Fx Currency	At the option of Ads.
BUYING RATES	**TRANSACTIONS**
TT Buying Rate	Clean inward remittances (PO/MT/TT/DD) where cover is already credited to ADs Nostro a/c. Cancellation of a Forward Sale Contract.
Bill Buying Rate	Purchase / Discounting of Bills and other Instruments. Where bank has to claim cover after payment.
TC / Fx Currency	At the option of ADs.

FOREIGN TRADE POLICY - 2023

The Union Minister of Commerce and Industry, has announced the **Foreign Trade Policy 2023** stating that it is dynamic and has been kept open ended to accommodate the emerging needs of the time. **FTP seeks to take India's exports to 2 trillion dollars by 2030.**

➢ As compared to USD 676 billion in 2021-22, India's overall exports, including services and merchandise exports, has already crossed US$ 750 Billion and is expected to cross US$ 760 Billion this year. One of the key features of the FTP 2023 is the extension of its benefits to e-commerce exports, which are predicted to reach USD 200-300 billion by 2030.

Key Approach to the policy is based on these 4 pillars:

(i) Incentive to Remission;
(ii) Export promotion thru collaboration: Exporters, States/Distt's, Indian Missions
(iii) Ease of doing business, reduction in transaction cost and e-initiatives; &
(iv) Emerging Areas: E-Commerce Developing Districts as Export Hubs and streamlining SCOMET policy.

STATUS CATEGORY	EXPORT PERFORMANCE FOB / FOR Value (in US $ mn) during current and previous 2 yrs.
One Star Export House	3
Two Star Export House	15
Three Star Export House	50
Four Star Export House	200
Five Star Export House	8000

IMPORTANT CHANGES – FOREX

The RBI has liberalised forex facilities for Individuals as under:

A) NRIs can be Joint Holders in Resident's SB/EEFC/RFC Accounts:
Individual residents in India are now permitted to in non-resident close relative(s) as joint holder(s) in their resident bank accounts, namely, Savings(SB), EEFC and Residents' Foreign Currency (RFC) accounts, on 'former or survivor' basis.

B) Residents can gift Shares / Debentures upto USD 50,000 Value:
A person resident in India can now give to a person resident outside India, by way of gift, any security / shares / debentures of value upto USD 50,000 in value per financial year subject to certain conditions. Earlier, a person resident in India could give to a person resident outside India, by way of gift, any security/shares/debentures of value upto USD 25,000 per calendar year.

C) Sale Proceeds of FDIs can be credited to NRE/FCNR (B) A/c:
Sale proceeds of Foreign Direct Investment (FDI) can be credited to Non-Resident (External) Rupee (NRE) Account Scheme / Foreign Currency (Non-Resident) Account FCNR (Banks) Scheme provided the original acquisition was by way of inward remittance or funds held in their NRE/FCNR (B) accounts.

D) Gifts to NRIs can be credited to NRO Accounts in Rupees:
Resident individuals are now permitted to make rupee gifts within the overall limit of USD 2,50,000 per financial year as permitted under the Liberalised Remittance Scheme (LRS) to an NRI/PIO who is a close relative by way of crossed cheque / electronic transfer to the NRO Rupee Account (NRO) of the NRI / PIO.

E) Loans to NRI Close Relatives can be given in Rupees:

Resident individuals are now permitted to lend in Rupees within the overall limit under the Liberalised Remittance Scheme of USD 2,50,000 per financial year to a Non Resident Indian (NRI) / Person of Indian Origin (PIO) close relative by way of crossed cheque/electronic transfer, subject to certain conditions.

F) Loan Repayment: Resident individuals can repay loans availed of in Rupees from banks in India by their NRI close relatives.

G) Residents can bear Medical Expenses of NRIs:
Residents are now allowed to bear the medical expenses of visiting NRIs / PIOs close relatives. Earlier, residents were allowed to make payment in rupees towards meeting expenses on a/c of boarding, lodging and services related to it or travel to and from and within India of a person resident outside India and who is on a visit to India.

H) Any person resident outside India, having a business interest in India, can open Special Non-Resident Rupee Account (SNRR account) with an authorised dealer for the purpose of putting through bona fide transactions in rupees.

NRO ACCOUNTS BY FOREIGN NATIONALS

To facilitate the foreign nationals to collect their pending dues in India, AD Cat-I banks may permit foreign nationals to re-designate their resident a/c maintained in India as NRO a/c as under.

a) AD Category-I bank should obtain the full details from the account holder about his legitimate dues expected to be received into his account.

b) AD Category-I bank has to satisfy itself as regards the credit of amounts which have to be bonafide dues of the account holder when she / he was a resident in India.

c) The funds credited to the NRO account should be repatriated abroad immediately, subject to the AD Category-I bank satisfying itself regarding the payment of the applicable Income tax and other taxes in India.

d) The amount repatriated abroad should not exceed USD one million per financial year.

e) The debit to the account should be only for the purpose of repatriation to the account holder's account maintained abroad. There should not be any other inflow / credit to this account.

The account should be closed immediately after all the dues have been received and repatriated as per the declaration made by the account holder.

NRO A/C BY FOREIGN STUDENTS

- Banks can open non-resident ordinary (NRO) accounts for foreign students on the basis of their passports after verifying their visa and immigration details, and on production of the admission letter from an educational institution. However, within 30 days of opening their accounts, the students should submit rent agreements as proof of local residential address. Banks should not insist on visit by landlords to branch to verify rent documents. Instead, banks should adopt alternative mechanisms to verify the local address.
- In case the student is staying in the facility provided by the institution, a letter from the educational institution can also be produced as proof of residence. Students of Pakistani nationality will need the prior approval of RBI for opening the a/c.
- Within the 30-day period, there would be cap of $1,000 on foreign remittances and Rs.50,000 on monthly withdrawal. After submitting the local proof of address, the account would be treated as normal NRO account.

DISPOSAL OF FOREX LOAN APPLICATIONS

		Exports	Gold Card
A	Fresh / enhancement	45 days	25 days
B	Renewal	30 days	15 days
C	Ad-hoc	15 days	7 days

MISCELLANEOUS

- Students going for higher studies abroad are considered as NRIs.
- For violation of FEMA, the enforcement agency is directorate of enforcement.
- In FCNR(B), the exchange risk is borne by the bank.
- Value dating: The date on which Nostro Account has been credited or the bank has received the payment in foreign currency.
- No refinance from RBI for pre or post shipment.
- Post shipment duty drawback scheme is for 90 days.
- Residents can now lend to NRIs to the extent of Rs. 200,000 through electronic transfer & crossed cheques

INTEREST EQUALIZATION SCHEME ON PRE AND POST SHIPMENT RUPEE EXPORT CREDIT

Government of India has approved the extension of Interest Equalization Scheme for Pre and Post Shipment Rupee Export Credit ('Scheme') up to March 31, 2024 or till further review, whichever is earlier.

a) 'Telecom Instruments' sector having six HS lines shall be out of the purview of the Scheme, except for MSME manufacturer exporters.

b) Revised interest equalisation rates under the Scheme will now be:

- 3% for MSME manufacturer exporters exporting under any HS lines, and
- 2 per cent for manufacturer exporters and merchant exporters exporting under 410 HS lines (after excluding 6 HS lines pertaining to Telecom Sector as mentioned above).

The annual net subvention amount **would be capped at Rs 10 crore per IEC in a given financial year**. All disbursements made from April 1, 2023, shall be counted for an IEC for the current financial year.

c) Banks, while issuing approval to the exporter, will necessarily furnish i) the prevailing interest rate, ii) the interest subvention being provided, and iii) the net rate being charged to each exporter, so as to ensure transparency and greater accountability in the operation of the Scheme.

d) The extended Scheme will not be available to those beneficiaries who are availing the benefit under any Production Linked Incentive (PLI) scheme of the government.

e) With effect from April 1, 2022, banks shall reduce the interest rate charged to the eligible exporters upfront as per the guidelines and submit the claims in original within 15 days from the end of the respective month.

APCONNECT

RBI has developed a software application called 'APConnect' to process the application for licensing of Full Fledged Money Changers (FFMCs), non-bank AD Cat-II merchant bankers, authorisation as MTSS (Money Transfer Service Scheme) Agents, renewal of existing licence / authorisation etc.

- Existing FFMCs / non-bank AD Category-II to get registered themselves on the APConnect application within three months i.e. before July 2023.
- On receipt of confirmation from the Regional Office of the RBI regarding generation of licence through APConnect, the existing FFMCs/non-bank AD Cat-II shall surrender their existing licence to the respective RO of RBI.
- Hence forth, non bank AD category II dealers, FFMCs and MTSS agents to submit various statements/returns through this application only.

REMITTANCES TO IFSCs UNDER THE LRS

With a view to deepen the financial markets in International Financial Services Centres (IFSCs) and provide an opportunity to resident individuals to diversify their portfolio, the RBI has lifted a major roadblock for investments in the IFSC at Gujarat International Finance Tec-City (GIFT City), Gujarat, through the Liberalised Remittance Scheme (LRS) route.

➢ The RBI in Feb 2021 has permitted resident individuals to make remittances under LRS to IFSCs set up in India with the following conditions:

a) The remittance shall be made only for making investments in IFSCs in securities, other than those issued by entities/companies resident (outside IFSC) in India.

b) Resident Individuals may also open a non-interest bearing Foreign Currency Account (FCA) in IFSCs, for making the above permissible investments under LRS. Any funds lying idle in the account for a period upto 15 days from the date of its receipt into the account shall be immediately repatriated to domestic INR account of the investor in India.

c) Resident Individuals shall not settle any domestic transactions with other residents through these FCAs held in IFSC.

➢ RBI in an amendment dated April 26, 2023 has removed the condition of repatriating the funds lying idle in the account for a period upto 15 days from the date of its receipt to domestic INR account of the investor in India.

REPORTING IN SINGLE MASTER FORM (SMF) ON FIRMS PORTAL

RBI has advised the AD Category-I banks of the following changes with respect to the reporting of foreign investment in SMF on **Foreign Investment Reporting and Management System (FIRMS) portal:**

a) The forms submitted on the portal will be auto-acknowledged. The AD banks shall verify the same within five working days based on the uploaded documents, as specified. In cases of delayed reporting, the AD banks shall either advise the Late Submission Fee (LFS) to the applicants, which will be computed by the system or advise for compounding of contravention.

➢ The forms submitted in FIRMS will now be processed as follows:

a) The forms submitted within prescribed timelines, will be verified by the AD banks based on the uploaded mandatory documents. The system would identify the delay in reporting, if any.

b) For forms filed with a delay less than **or equal to three years,** the AD banks will approve the same, subject to payment of LSF.

d)The LSF will be computed by the system and an e-mail will be sent to the applicant and the concerned RO of RBI specifying the amount and the timeline within which it is to be paid.

c) Once the LSF amount is realised, the concerned RO will update the status in the FIRMS portal and the updated status will be communicated to the applicant through a system generated e-mail.

d) The AD bank will approve the forms filed with a delay greater than three years, subject to compounding of contravention. The applicant may thereafter approach RBI with their application for compounding.

e) The remarks of the AD Bank for rejection of forms, if any, will be communicated to the applicant through a system generated e-mail and the same can also be viewed in the FIRMS portal.

MISCELLANEOUS

● **ASIAN CLEARING UNION (ACU):** ACU has 9 member countries namely, Sri Lanka, Pakistan, Bangladesh, Nepal, Bhutan, Iran, Mynamar, India and Maldives. The HQ is at Tehran. Three currencies: ACU $, JPY, ACU Euro.

● **BUYER'S CREDIT:** Means finance for payments of imports in India arranged by the importer (buyer) from a bank or financial institution outside India in foreign currency.

● **SUPPLIER'S CREDIT:** Means credit extended for imports directly by the overseas supplier instead of a bank or financial institution. Supplier's Credit is a facility of finance extended to Indian suppliers of turnkey projects, construction projects, equipments and other capital goods, enabling them to export on 'Deferred Payment' terms.

● **CATEGORIES OF BRANCHES:**

(a) **Category A:** Maintains and operates NOSTRO a/c;
(b) **Category B:** Operates NOSTRO a/c of Category designated branches;
(c) **Category C:** Not permitted to deal independently FC.

● **ECNOS:** Export Credit Not Otherwise Specified in the Interest Rate structure for which banks are free to decide the rate of interest keeping in view the BPLR and spread. ECNOS rate of interest s MCLR + 5.00%.

● **EDPMS:** RBI had launched IT- based system called Export Data Processing and Monitoring System (EDPMS) for better monitoring of export of goods and software and facilitating AD banks to report various returns through a single platform - (a) handling of shipping bills for caution listed exporters; (b) delayed utilization of advances received for exports; and (c) exports outstanding.

● **FOREIGN INWARD REMITTANCE CERTIFICATE (FIRC):** The validity of FIRCs issued must be restricted to one year from the date of its issuance. FIRCs is issued on security paper (where the rupee equivalent is more than Rs.15,000/-) only at the request of the beneficiary.

● **LLOYDS CERTIFICATE:** A certificate of sea-worthiness and age of the vessel issued by Lloyds Registry of Shipping.

● **UNIFORM RULES FOR BANK TO BANK REIMBURSEMENT - URR – 725:** (Earlier: URR 525). Now, URR has been updated to bring the same in conformity with UCP 600. URR 725 contains number of technical changes from the existing version of URR 525.

● **DEEMED EXPORTS:** Deemed exports refer to those transactions in which the goods supplied do not leave the country. Supply by the main / sub-contractor against Advance Licensing / DFRC under the Duty Exemption / Remission Scheme, supply of goods to EOUs, units located EPZs, SEZs, STPs, EHTPs, Projects financed by multi-lateral bilateral agencies and projects funded by UN agencies etc. are regarded as deemed exports.

● **R-RETURN:** Transactions in various currencies, consolidated bank wise return. Fortnightly on 15th and last day of the month – within 7 days. Branches captures the necessary R return details in the CBS system (FCC and FCR) while lodging the Export/Import Bills, LoC and Remittances.

● **TOBIN TAX:** It is a tax for spot conversion of one currency into another. The tax is intended to put a penalty on short-term speculative gain to another currency.

IMPORTANT & LATEST CONCEPTS

ASSET LIABILITY MANAGEMENT

What is ALM: ALM is the management of Assets and Liabilities in the balance sheet in such a way that the net earnings from interest is maximized and Liquidity Risk and interest rate risk are minimized. It is mandatory for banks since April 01, 1999.

RBI has issued guidelines on ALM to banks. Banks have to use the Flow Approach and construct Maturity ladders to identify and manage the mismatches / gaps.

ALCO (Asset Liability Committee): A top management committee to oversee implementation of ALM system, to be headed by CMD or ED or CEO.

Maturity Buckets: There are two different maturity ladders constructed for the purpose of Liquidity & interest rate management.

Liquidity Time Buckets (1) Next day (2) 2-7 days (3) 8-14 days (4) 15-28, (5) 29-90, (6) 91-180, (7) 181-365 days, (8) 1-3 years, (9) 3-5 years and (10) above 5 years

Interest Rate Sensitivity: 8 time buckets (1) 1-28 days, (2)29-90 ,(3) 91-180, (4)181-365 days, (5)1-3 years,(6) 3-5 years, (7) above 5 years and (8) Non-Sensitive

Mismatch Position: When in a particular maturity bucket, the amount of maturity liabilities or assets does not match, such position is called a mismatch position, which creates liquidity surplus or liquidity crunch position and depending upon the interest rate movement, such situation may turnout to be risky for the bank.

Ceiling on Mismatch Position – RBI guidelines:

Liquidity: Mismatches for cash flows for the first four buckets not to exceed 5%, 10%, 15% & 20% respectively of cash outflows for those buckets).

Interest sensitivity: Each Bank should set prudential limits on individual Gaps with the approval of the Board/Management committee.

Net Interest Income (NII) = Interest Income - Interest Expended = Spread

Net Interest Margins (NIM) = NII / Average Total assets

NII,NIM measure the effectiveness of ALM /Profitability / efficiency of Bank's core activities

Benefits of ALM:

Enables bank managements to take informed business decisions manage their liquidity and Interest rate structures better leading to improved profitability.

ASSET RECONSTRUCTION COMPANY (ARC)

Asset Reconstruction Companies (ARCs) are centralised agencies, which take over distressed assets from banks, financial institutions, credit card companies etc. Such assets are thereafter recovered, securitized or re-packaged and sold or liquidated and so on.

➢ Every ARC shall get itself registered with RBI and shall commence business within six months from the date of grant of Certificate of Registration by RBI, which may get extended by additional 6 months on application to RBI. An ARC shall not raise monies by way of deposit.

➢ RBI had set up a Committee in April 2021 to undertake a comprehensive review of the working of Assets Reconstruction Companies (ARCs) under the chairmanship of Mr. Sudarshan Sen and recommended suitable measures for enabling them to function in a more transparent and efficient manner. As per revised regulatory framework of RBI, minimum net owned funds required for ARCs is Rs. 200 crore by March 31, 2024 and Rs. 300 crore by March 31,2026

➢ Before bidding for the stressed assets, ARCs may seek from the auctioning banks adequate time, not less than **two weeks**, to conduct a meaningful due diligence of the account by verifying the underlying assets.

➢ The date of redemption of underlying SRs and total period of realization **shall not extend beyond eight years** from the date of acquisition of the financial asset by the first ARC.

ADR, GDR & IDR

American & Global Depository Receipts: American Depository Receipts (ADRs) and Global Depository Receipts (GDRs) are instruments in the nature of depository receipt or certificate. These are negotiable and issued by ~~non-US Company~~, representing publicly traded, local currency equity shares. For Indian Corporates, it is a preferred source of raising capital in foreign markets. NRIs prefer to invest in these instruments. ADR are listed on American Stock Exchange whereas GDRs are listed in a Stock Exchange other than American Stock Exchanges say Luxembourg or London.

Indian Depository Receipts: Companies incorporated outside the country raise resources from the Indian capital market with issue of Indian Depository Receipts (IDRs). IDR means any instrument in the form of depository receipt created by the domestic depository in India against the underlying equity shares of the issuing company.

BCSBI

With the objective to ensure that comprehensive code of conduct for fair treatment of customers is evolved and adhered to, the Banking Codes and Standards Board of India (BCSBI) has been set up as a collaborative effort of RBI and Banks as per S.S. Tarapore committee recommendations. BCSBI has brought out the "Code of Bank's Commitment to Customers". BCSBI is autonomous and independent body. It is registered society.

CENTRAL ELECTRONIC REGISTRY OF SECURITIZATION ASSET RECONSTRUCTION AND SECURITY INTEREST OF INDIA (CERSAI)

CERSAI has been established by the Central Govt. under Sec 25 of the Co's Act, for the purpose of registration of all security interest over property, transactions of securitization and asset reconstruction.

Registration has to be completed for the creation of security interests with CERSAI and the time limit of 30 days has been withdrawn w.e.f. 24-1-2020. The object of setting up the Registration System under the SARFAESI Act was to create a public data base about encumbrances created on properties to secure loans and advances given by the banks and financial institutions, as also transactions of securitization or asset reconstruction.

The Govt. issued a Gazette Notification dated January 22, 2016 for filing of the following types of security interest on the CERSAI portal:

a) Particulars of creation, modification or satisfaction of security interest in immovable property by mortgage.

b) Particulars of creation, modification or satisfaction of security interest in hypothecation of plant and machinery, stocks, debts including book debts or receivables, whether existing or future.

c) Particulars of creation, modification or satisfaction of security interest in intangible assets, being know how, patent, copyright, trademark, licence, franchise or any other business or commercial right.

d) Particulars of creation, modification or satisfaction of security interest in any 'under construction' residential or commercial or a part thereof.

- Agricultural property is excluded from the purview of SARFAESI Act. Hence bank need not register with Central Registry mortgage/security interest created on agricultural land.
- The right to enforce security u/s 13 of Sarfaesi Act is linked to the registration with CERSAI. Banks take possession of only those securities in respect of which charge has been registered with CERSAI. Further bank will have priority over Govt. dues where charge is registered.

	Nature of Transactions to be Registered	FORM No.	Amount of fee payable
1.	Particulars of creation or modification of Security Interest in favour of secured creditors.	FORM I	Rs.100 for creation and for any subsequent modification of Security interest for a loan above Rs.5 lakh. For a loan upto Rs.5 lakh, the fee would be Rs.50 for both creation and modification.
2.	Satisfaction of any existing Security Interest.	FORM II	NIL
3.	Particulars of securitisation or reconstruction of financial assets.	FORM III	Rs.500
4.	Satisfaction of Securitisation or Reconstruction transactions.	FORM IV	Rs.50
5.	Any application for information recorded / maintained in the Register by any person.	---	Rs.10
6.	Any application for condonation of delay up to 30 days.	---	Not exceeding 10 times of the basic fee, as applicable.

RIGHT TO INFORMATION ACT

- Who can call for the Information: Indian Citizen, NRI and not PIO.
- Person seeking the information need not give the reasons as to why he is seeking the information
- **Time Frame:** The Public Information Officers has to provide the information in normal situation within 30 days. In case of third party information – 45 days. In case the information pertains to life and liberty then 48 hours.
- **Penalty for delay** in providing information: Rs. 250 per day with maximum upto Rs.25,000/-
- **Fee:** A person who desires to seek some information from a Central Government Public Authority is required to send, along with the application, a demand draft or a banker's cheque or an Indian Postal Order of Rs.10/-. If the applicant belongs to below poverty line (BPL) category, he is not required to pay any fee. He has to submit a proof in support of his claim to belong to BPL.
- If information is not provided or denied or information is not satisfactory as provided by the Central Public Information Officer (CPIO), the appeal to be made to Appellate authority within 30 days which has to be disposed by appellate authority within 30 days. If first appeal is not replied, then appeal can be made to Information Commission.
- **Record preservation time:** 5 to 8 years as fixed by Central Govt.
- As per Section 23, lower courts are barred from entertaining suits or applications. However, the writ jurisdiction of the Supreme Court and high courts under Articles 32 and 226 of the Constitution remains unaffected.

COMPLETE TRANSITION AWAY FROM LIBOR:

- RBI has issued an advisory to banks and other RBI-regulated entities, emphasizing the need to take steps to ensure a complete transition away from the London Interbank Offered Rate (LIBOR) from July 01, 2023.
- After June 30, 2023, the Mumbai Interbank Forward Outright Rate (MIFOR) shall cease to be recognised as a 'significant benchmark'. This decision comes as a result of the cessation of the US Dollar LIBOR.
- Banks / Financial Institutions (FIs) to ensure that no new transaction undertaken by them or their customers rely on or are priced using the US$ LIBOR or the Mumbai Interbank Forward Outright Rate (MIFOR)
- **The updated list of 'significant benchmarks' administered by FBIL with effect from July 01, 2023 are:**
  - a) Overnight Mumbai Interbank Outright Rate (MIBOR)
  - b) USD/INR Reference Rate
  - c) Treasury Bill Rates
  - d) Valuation of Government Securities
  - e) Valuation of State Development Loans (SDL)
  - f) Modified Mumbai Interbank Forward Outright Rate (MMIFOR).

CALL, NOTICE AND TERM MONEY MARKETS

RBI has decided that Scheduled Commercial Banks (excluding SFBs and Payment Banks) may set their own limits for borrowing in Call and Notice Money Markets.

As in the case of Term Money Market borrowing, Scheduled Commercial Banks shall put in place internal board approved limits for borrowing through Call and Notice Money Markets within the prudential limits for inter-bank liabilities prescribed by Department of Regulation.

BASEL NORMS

The Basel standards are developed by the Basel Committee on Banking Supervision (BCBS), a group within the Bank for International Settlements (BIS) in Basel, Switzerland, to ensure safety, soundness and solvency of the banking system.

Capital adequacy ratio reflects the adequacy of the capital funds (i.e. share capital, free reserves and other capital funds) in relation to the risk-weighted assets. It is calculated as:

CAR = Capital Funds x 100 / Risk Weighted Assets = 9%.

BASEL - I:

➢ Basel-I guidelines were introduced in July 1988 and the same were implemented by RBI from April1992. Initially it covered Credit Risk and subsequently Market Risk was introduced.

➢ **Capital Adequacy:** The minimum capital requirement recommended by Basel committee is 8%. However, as per RBI guidelines the SCBs to maintain 9% and new private sector banks to maintain 10%

BASEL – II:

➢ Indian Banks with Overseas Presence and Foreign Banks in India migrated to Basel-II by 31-03-2008. All other banks by 31-03-2009.

➢ **Basel II in addition to Credit and Market Risk also covers Operational Risk.**

➢ **Basel II is based on Three Pillars:**

- **Pillar I:** Minimum capital requirements.
- **Pillar II:** Supervisory through On-site and Off-site methods based on Internal Capital Adequacy Assessment Process (ICAAP) and Supervisory Review & Evaluation Process (SREP).
- **Pillar III:** Market disclosure / discipline.

BASEL – III:

➢ Basel III introduced to improve banking sector resilience by strengthening global capital and liquidity regulations. RBI's guidelines became effective from April 1, 2013 in a phased manner. The Basel III capital ratios fully implemented as on October 01, 2021.

➢ The reform package aims at enhancing banking sector's ability to absorb shocks arising from financial and economic stress and improve risk management and governance as well as strengthen banks' transparency and disclosure standards relating to regulatory capital.

➢ **The enhancements of Basel III over Basel II come in four areas:**

a) Augmentation in the level and quality of capital;
b) Introduction of liquidity standards;
c) Modifications in provisioning norms; &
d) Better and more comprehensive disclosures.

➢ **Along with the three pillars, Basel III introduced following:**

a) Liquidity Coverage Ratio (LCR):
b) Net Stable Funding Ratio (NSFR);
c) Leverage Ratio;
d) Capital Conservation Buffer (CCB)
e) Counter Cyclical Capital Buffer (CCcyB) •

RBI's PRESCRIPTION FOR INDIAN BANKS:

➢ Under revised guidelines (Basel III), total regulatory capital will consist of the sum of the following categories:

i) Tier 1 Capital (going-concern capital)

(a) Common Equity Tier 1

(b) Additional Tier 1

ii) Tier 2 Capital (gone-concern capital)

TIER I & TIER II CAPITAL

Common Equity Tier I Capital Ratios: Common equity Tier I capital / RWA for (Credit risk + Market Risk + Operational Risk)

A) Elements of Common Equity Tier I Capital:

a) Common shares (paid –up equity capital);

b) Stock surplus (share premium) resulting from the issue of common shares;

c) Statutory reserves;

d) Capital reserves representing surplus arising out of sale proceeds of assets / Other disclosed free reserves if any;

f) Balance in profit & Loss account of the previous financial year.

g) Revaluation Reserves: 45% to be taken at a discount of 55%.

h) Foreign currency Translation reserves @ 25% discount.

i) Current year profits can be reckoned on quarterly basis provided incremental NPA provision at end of any of four quarters of previous financial year have not deviated more than 25% from the average of four quarters.

j) Deferred tax assets arising due to timing differences may be recognised as CET1 capital up to 10% of a bank's CET1 capital.

B) Elements of Additional Tier I Capital:

a) Perpetual Non cumulative preference shares (PNCPS).

b) Stock surplus (share premium) resulting from the issue of instruments included in Additional Tier I capital.

c) Debt capital instruments eligible for inclusion in Additional tier I capital. (Innovative Perpetual Debt Instrument (IPDI) - **Max 15% of Tier I; IPDI + PNCPS – Max 40% of Tier I.**

C) Elements of Tier II Capital:

a) General provisions and Loss Reserves: General Provisions on Standards Assets, Floating Provisions, held for country exposures, investment reserve account, excess provisions which arise on account of sale of NPAs and countercyclical provisioning buffer, up to a maximum of 1.25% of the total credit RWAs under Standardised approach. Under Internal Ratings Based (IRB) approach, where the total expected loss amount is less than total eligible provisions, banks may recognize the difference as Tier II capital up to a maximum of 0.6% of credit RWAs calculated under IRB approach.

b) Debt capital instruments issued by the banks;

c) Preference share capital instruments (perpetual cumulative preference shares (PCPS) / Redeemable Non-cumulative Preferences shares (RNCPS), redeemable cumulative preference shares (RCPS) issued by the banks.

d) Stock surplus (share premium) from instruments included in Tier 2 capital.

IMPORTANT ASPECTS:

•PCPS–Perpetual in nature while RNCPS & RNCPS have fixed maturity of minimum 5 years.

•Perpetual instrument should be cumulative in nature whereas dated instruments could be cumulative or non cumulative.

•Coupon can be fixed or floating.

•These instruments shall not be issued with a PUT option but may issue with call option with RBI prior approval, where call option can be exercised only after the instrument has run for at least 5 years.

•The value of the redeemable instrument is taken at a discount based on the remaining maturity period as below:

Remaining Maturity of instruments	Rate of Discount (%)
Less than one year	100
One year and more but less than two years	80
Two year and more but less than three years	60
Three year and more but less than four years	40
Four year and more but less than five years	20

COMPUTATION OF BASEL III CAPITAL RATIOS:

➢ **Common Equity Tier I capital Ratio** = Common Equity Tier I Capital / RWA (Credit Risk + Market Risk + Operational Risk).

➢ **Tier I Capital Ratio** = Tier I Capital / RWA (Credit Risk + Market Risk + Operational Risk)

➢ **Total Capital (CRAR)** = Eligible Total Capital / RWA (Credit Risk + Market Risk + Operational Risk)

● **CREDIT RISK:** Credit Risk refers to risk of default by the borrower / co-borrower. Indian Banks have to adopt:

a) Standardized method for calculations.
b) Internal Rating Based Approach (IRB).

● **MARKET RISK:** Market Risk refers to changes in the interest rate affecting the yield on investments. Indian Banks have to adopt:

a) Standardized (Duration) method.
b) Internal Model Approach (IMA).

● **OPERATIONAL RISK:** Operational risks refers failure of systems and procedures, hardware and software which may be due to internal or external factors. Indian Banks have to adopt:

a) Basic Indicator Approach.
b) The Standardised Approach (TSA).
c) The Advanced Measurement Approach.

As per RBI guidelines, Capital charge arrived at using basic indicator method of applying 15% (alpha) on the average Gross Income of past three positive years. Once the Capital charge is arrived, Capital requirement is arrived by multiplying Capital charge by 12.5.

IMPORTANT RISK WEIGHTS

Cash Balance with RBI Balance with other Scheduled Commercial Banks.	0% 20%
Govt. / Approved Securities	2.5%
Secured loans to Staff Members by mortgage / super-annuation benefits Other Staff loans	20% 75%
Loans up to Rs.1 lakh against Gold and Silver ornaments	50%
Central – Zero / State Govt. guaranteed advances	20%
Loans to PSUs	100%
Corporates (un-rated claims), NBFCs–ND-SI and Commercial Real Estates	100%
Loans guaranteed by ECGC	20%
SSI advances upto CGTMSE / DICGC guarantee	0%
Advances against term deposits, LIC policy, NSCs with adequate margin	0%
Consumer Credit / Personal Loans Credit Cards / Capital Market Exposures	100% 125%
Venture Capital Funds	150%
Education Loan (classified as Non-consumer credit)	75%
Regulatory Retail Portfolio	75%
Claims on BIS, IMF, Multilateral Devl. Banks	20%
Restructured /Rescheduled Loans	150%

REGULATORY CAPITAL PRESCRIPTIONS
(as % age of risk weighted assets)

		RBI's Prescriptions	
		Current (Basel II)	Basel III (as on 31-3-20)
A = (B+D)	Minimum Total Capital (MTC)	9.0	9.0
B	Minimum Tier 1 capital	6.0	7.0
C	Of which: Minimum Common Equity Tier 1 capital	3.6	5.5
D	Maximum Tier 2 capital (within Total Capital)	3.0	2.0
E	Capital Conservation Buffer (CCB)	-	2.5
F = C+E	Minimum Common Equity Tier 1 capital + CCB	3.6	8.0
G = A+E	Minimum Total Capital + CCB	-	11.5
H	Leverage Ratio (ratio to total assets)	-	3.5

As a matter of prudence, RBI has decided that Banks (excluding LABs and RRBs) operating in India shall maintain a minimum total capital (MTC) of 9% of total risk weighted assets (RWAs) as against a MTC of 8% of RWAs as prescribed in Basel III rules text of the BCBS.

COMMERCIAL REAL ESTATE - RESIDENTIAL HOUSING

- As loans to residential housing projects under the commercial real estate (CRE) sector exhibit lesser risk and volatility than the CRE sector taken as a whole, RBI has carved out a separate sub-sector called 'commercial real estate--residential housing' (CRE-RH) from the CRE sector.
- CRE-RH would consist of loans to builders / developers for residential housing projects (except for captive consumption) under CRE segment. Such projects should ordinarily not include non-residential commercial real estate. Integrated housing projects comprising some commercial space (e.g. shopping complex, school, etc.) can also be classified under CRE-RH, provided the commercial area in the residential housing project does not exceed 10% of the total floor space index (FSI) of the project. In case the FSI of the commercial area in the predominantly residential housing complex exceeds the ceiling of 10%, the project loans should be classified as CRE and not CRE-RH. The CRE-RH segment will attract a lower risk weight of 75% & lower standard asset provisioning of 0.75% as against 100 per cent and 1.00 per cent, respectively for the CRE segment.

RATIONALISATION OF RWs & LTV RATIOS:

- Considering the importance of the housing sector and given its forward and backward linkages to the economy, RBI has decided, as a countercyclical measure, to reduce the risk weight on certain categories of housing loans sanctioned on and after June 7, 2017 and also to reduce the standard asset provisioning rate on such loans.
- As a countercyclical measure, the LTV ratios, risk weights and standard asset provisioning rate for individual housing loans are as under:

OUTSTANDING LOAN	LTV RATIO (%)	RISK WEIGHT (%)	STANDARD ASSET PROVISION
Up to Rs.30 lakh	≤ 80	35	0.25%
	> 80 and ≤ 90	50	
Above Rs.30 lakh & up to Rs.75 lakh	≤ 80	35	
Above Rs.75 lakh	≤ 75	50	

- The LTV ratio should not exceed the prescribed ceiling in all fresh cases of sanction. In case the LTV ratio is currently above the ceiling prescribed for any reasons, efforts should be made to bring it within limits.
- Banks' exposures to third dwelling unit onwards to an individual will also be treated as CRE exposures.
- The extant instructions requiring additional risk-weight of 25%age points for restructured housing loans and higher provisioning of 2% for housing loans extended at teaser rates by banks will continue to remain in force.

SUBSTANTIAL EXPOSURE CAP

In its guidelines on Risk Management Systems, RBI has advised the banks to lay down "Substantial Exposure Limits" i.e. the sum total of exposures assumed in respect of those single borrowers enjoying credit facilities in excess of the threshold limit say, 10% or 15% of capital funds. The Substantial Exposure Limit may be fixed at 600% to 800% of capital funds depending upon degree of concentration risk the Bank is exposed to. Taking a lead from the aforesaid guidance of RBI, the Bank has set the Substantial Exposure Limit (SEL) approved by the Board.

OTHER IMPORTANT ASPECTS

A) CAPITAL CONSERVATION BUFFER (CCB):

➢ The capital conservation buffer (CCB) is designed to ensure that banks build up capital buffers during normal times (i.e., outside periods of stress) which can be drawn down as losses are incurred during a stressed period.

➢ As per Basel standards, the CCB was to be implemented in tranches of 0.625% per annum in phases and the transition to full CCB of 2.5 per cent was set to be completed by March 31, 2019. As part of the regulatory measures taken in the wake of COVID-19, the implementation of last tranche of the capital conservation buffer (CCB) of 0.625 per cent, which was scheduled to take effect from April 1, 2020, was deferred till April 1, 2021. Considering the continuing stress on account of COVID-19, and in order to aid in the recovery process, RBI deferred the implementation of the last tranche of the CCB of 0.625% from April 1, 2021 **to October 1, 2021.**

B) COUNTERCYCLICAL CAPITAL BUFFER: The purpose of countercyclical capital buffer is to achieve the broader macro-prudential goal of protecting the banking sector from periods of excess aggregate credit growth that results in a system-wide build-up of risk. A countercyclical capital buffer within a range of 0 – 2.5% of RWAs in form of Common Equity or other fully loss absorbing capital will be implemented as when the circumstances warranted.

C) LEVERAGE RATIO: The Leverage Ratio under the Basel III regulatory framework for banks is defined as their capital measure divided by their exposure measure, with this ratio expressed as a percentage.

- Capital measure for the leverage ratio is the Tier-1 capital and exposure measure is the sum of on-balance sheet exposures; derivative exposures; securities financing transaction exposures; and off-balance sheet items.
- This ratio is calibrated to act as a credible supplementary measure to the risk based capital requirements and is intended to achieve two objectives.

a) The first objective is to constrain the build-up of leverage in the banking sector to avoid destabilising deleveraging processes which can damage the broader financial system and the economy.

b) The second objective is to reinforce the risk-based requirements with a simple, non-risk based "backstop" measure.

- RBI has decided that the minimum **leverage ratio** shall be 4% for domestic systemically important banks (D-SIBs) and 3.5% for other banks. These **guidelines** are effective from the qtr commencing October 01, 2019.

D) IMPLEMENTATION OF NET STABLE FUNDING RATIO (NSFR):

➢ Basel Committee on Banking Supervision (BCBS) had introduced the concept of NSFR which reduces funding risk by requiring banks to fund their activities with sufficiently stable sources of funding over a time horizon of a year in order to mitigate the risk of future funding stress.

➢ **Net Stable Funding Ratio =** (Available amount of stable funding / Required amount of Stable funding) × 100 which should be more than 100%.

➢ As per the prescribed timeline, banks in India were required to maintain NSFR of 100 per cent from April 1, 2020. But on account of COVID19 pandemic, RBI had deferred its implementation to April 1, 2021.

➢ While banks are comfortably placed on the liquidity front, however, in view of the continued stress on account of COVID-19, RBI has decided to defer the implementation of NSFR **to October 1, 2021.**

E) LIQUIDITY COVERAGE RATIO (LCR):

➢ BASEL Committee designed Liquidity Coverage Ratio (LCR) to strengthen the global liquidity regulations with the goal of promoting a more resilient banking sector.

LCR = STOCK OF HIGH QUALITY LIQUID ASSETS (HQLA) / TOTAL NET CASH OUTFLOWS OVER THE NEXT 30 CALENDAR DAYS (30 Stress days.)

➢ As part of post Global Financial Crisis (GFC) reforms, Basel Committee on Banking Supervision (BCBS) had introduced Liquidity Coverage Ratio (LCR), which requires banks to maintain High Quality Liquid Assets (HQLAs) to meet 30 days net outgo under stressed conditions.

➢ Further, as per Banking Regulation Act, 1949, the banks in India are required to hold liquid assets to maintain SLR. In view of the fact that liquid assets under SLR and HQLAs under LCR are largely the same, RBI have been allowing banks to use a progressively increasing proportion of the SLR securities for being considered as HQLAs for LCR so that the need to maintain liquid assets for both the requirements is optimised.

➢ At present, the assets allowed as Level 1 High Quality Liquid Assets (HQLAs), includes among others within the mandatory SLR requirement, Government securities to the extent allowed by RBI under
(i) Marginal Standing Facility (MSF) and
(ii) Facility to Avail Liquidity for Liquidity Coverage Ratio (FALLCR) [15 per cent of the bank's NDTL with effect from April 1, 2020].

➢ Given that SLR has now been reduced to 18 per cent of NDTL from April 11, 2020, and with increase in MSF from 2 per cent to 3 per cent of the banks' NDTL (with effect from March 27, 2020 and applicable upto 31-3-2021), entire SLR-eligible assets held by banks are now permitted to be reckoned as HQLAs for meeting LCR.

➢ Further, banks were required to maintain LCR of 100% with effect from Jan. 1, 2019. In order to accommodate the burden on banks' cash flows on a/c of the Covid19 pandemic, banks are permitted to maintain LCR as under:

Upto September 30, 2020	**80%**
Oct 1, 2020 to March 31, 2021	**90%**
April 1, 2021 onwards	**100%**

➢ Facility to Avail Liquidity for Liquidity Coverage Ratio (FALLCR) - 15 per cent of the bank's NDTL with effect from April 1, 2020.

➢ One of the key reforms introduced by Basel III, the LCR, requires banks to hold an adequate amount of **unencumbered High-Quality Liquid Assets** (HQLA) that can be converted easily and immediately into cash in private markets.

➢ **HQLA** = Level 1 **(L1)** assets generally include **cash, central bank reserves, and certain marketable securities backed by sovereigns and central banks**, among others.

➢ **Level 2 – Comprise of L2A & L2B.** L2A assets include, certain government securities, convertible bonds and corporate debt securities. **Level 2B** assets include lower rated corporate bonds, residential mortgage backed securities and equities that meet certain conditions.

- **L2A – 15% haircut.**
- **L2 assets should not exceed 40% of Total Liquid assets.**
- **L2B – 50% haircut. L2B should not comprise more than 15% of Total HQLA.**

CAPITAL FOR CREDIT RISK

- **USE OF CREDIT RATING:** RBI allows use of ratings by credit rating agencies for assigning risk weights for credit risk. Where the counterparty is rated by an eligible credit rating agency, the risk weight will be based on such rating. RBI has approved the following domestic and international agencies for the purpose:

DOMESTIC CREDIT RATING AGENCIES	INTERNATIONAL AGENCIES
• Brickwork Ratings India Pvt. Limited; • Credit Analysis and Research Ltd; • CRISIL Limited; • ICRA Limited; • India Ratings and Research Pvt. Ltd; & • SME Ratings Ltd. (SMERA)	• Fitch; • Moody's; & • Standard & Poor's

CLAIMS ON ALL SCHEDULED BANKS		
Level of CRAR (%) of Investee Bank	Investments within 10% limit referred for computing capital funds	Other claims in %
9 and Above	Higher of 100% or the risk weight as per the rating of the instrument or counter party	20
6 to < 9	150	50
3 to 6	250	100
0 to 3	350	150
Negative	625	625

CAPITAL FOR CREDIT RISK FOR OFF-BALANCE SHEET ITEMS

- In case of Non Fund based Exposures, the credit equivalent amount of Non Fund based exposure is determined by multiplying the contracted amount of non fund based exposure by the relevant Credit conversion factor (CCF). The credit conversion factor for Guarantees is dependent on the nature of guarantees. Credit conversion factors are as below:

A) Financial Guarantees, DPG, Advance Payment Guarantees – 100%

B) Bid Bond Guarantees & Performance Guarantees – 50%

REGULATORY RETAIL PORTFOLIO – REVISED LIMIT:

➢ As per the extant guidelines, the exposures included in the regulatory retail portfolio of banks are assigned a risk weight of 75%. For this purpose, the qualifying exposures need to meet certain specified criteria, including low value of individual exposures. In terms of the value of exposures, RBI has prescribed that the maximum aggregated retail exposure to one counterparty should not exceed the absolute threshold limit of Rs.5 crore.

➢ In order to reduce the cost of credit for this segment consisting of individuals and small businesses (i.e. with turnover of upto Rs.50 crore), and in harmonisation with the Basel guidelines, RBI has decided to increase this threshold to Rs.7.5 crore in respect of all fresh as well as incremental qualifying exposures.

CENTRAL REPOSITORY OF INFORMATION ON LARGE CREDITS (CRILC)

With the slowdown of the Indian economy, a number of companies / projects are under stress. As a result, the Indian banking system has seen increase in Non-Performing Assets (NPAs) and restructured accounts during the recent years. Not only do financially distressed assets produce less than economically possible, they also deteriorate quickly in value. The basic purpose of CRILC is to collect, store and disseminate large credit data to banks. The underlying objective of the creation of the CRILC is to tackle the menace of rising NPAs in the Indian banking system.

EARLY RECOGNITION OF STRESS AND SETTING UP OF CRILC:

Before a loan a/c turns into an NPA, banks are required to identify incipient stress in the account by creating a sub-asset category viz. 'Special Mention Accounts' into three sub-categories namely SMA-0, SMA-1 and SMA-2.

COVERAGE: Borrowers' including Special Mention Accounts (SMA 0, 1 & 2) with credit exposures having aggregate fund-based and non-fund based exposure of **Rs. 50 million and above.**

➢ CRILC-Main Report on all borrower entities having aggregate exposure of Rs 5 crore and above is to be submitted on a monthly basis. In addition, the Bank have to report to CRILC, all borrower entities in default with aggregate exposure of Rs.5 crore and above, on a weekly basis, at the close of business every Friday or the preceding working day if Friday happens to be a holiday.

➢ Borrowers with default of one day and more (including NPA) are reported along with the default date as "**Defaulting Borrowers**".

➢ The borrowers who have defaulted during the week (Saturday to Friday) are reported as "**Defaulting Borrowers**" along with the date of default.

➢ Borrowers who have repaid all the dues during the week are reported as "**Out of Default**" to RBI CRILC along with date of moving out of default.

Categories	BASIS FOR CLASSIFICATION
SMA-0	**Principal or interest payment not overdue for more than 30 days but account showing signs of incipient stress**
SMA-1	**Principal or interest payment overdue between 31-60 days**
SMA-2	**Principal or interest payment overdue between 61-90 days**

CORPORATE GOVERNANCE

Corporate Governance means a set of transparent relationship between an institution's management, its Board, shareholders and other stakeholders, composition and role of Board of Directors, integrity of accounting practices and disclosure norms and internal control system with a view to protect rights of shareholders and enhance shareholders value through ethical conduct of business. Setting standards for good banking practices to:

Ensure a transparent and fair relationship between the customers and the bank and proactively eliminate customer complaints and evolve a scheme for redress of the grievances (of customers, particularly retail depositors and borrowers). First committee on Corporate Governance appointed by SEBI- Kumar Manglam Birla.

CAPITAL MARKET EXPOSURE

Aggregate Capital market exposure: Restricted to 40% (Both indirect and direct) of net worth of the bank as on March 31 of previous year both on Solo and Consolidated basis. Within the overall limit of 40%, direct exposure by investment in shares, debentures / bonds not to exceed 20% of net worth.
Advance against Shares: To individuals limited to Rs. 10 lac against shares held in physical form and Rs.20 lac in demat accounts from Banking Sector. Margin– Minimum 50%.
IPO Finance: Restricted to Rs 10 lacs / Individual from the banking sector with 50% margin with at least 25% margin as Cash margin (within 50%).
Statutory Restriction: Banks cannot allow loan to their employees / others for purchase their own shares. This is as per Sec. 20 – Banking Regulation Act.
Statutory Ceiling: As per Sec. 19 of Banking Regulation Act, the banks cannot hold more than 30% of their own paid up capital + reserves or 30% of paid up capital of the company (whichever is lower), as pledge, mortgagee or absolute owner.

CERTIFICATE OF DEPOSITS (CDs)

CDs is a negotiable money market instrument and issued in dematerialized form or as a Usance Promissory Note, for funds deposited at a bank or other eligible financial institution for a specified time period. It is issued at a discount to face value.

Eligibility: CDs can be issued by:
(i) SCB including RRBs;
(ii) Select all-India Financial Institutions.

Aggregate Amount:

- Banks - depending on their requirements.
- FI- within the overall limit fixed by RBI not to exceed 100 % of NoF.

Minimum Size of Issue and Denominations:
Minimum - Rs.5 lakh, in multiples of Rs. 5 lakh thereafter.

Who can Subscribe:
Individuals, corporations, Companies, funds, associations, etc; NRIs on non-repatriable basis.

Maturity:
Banks-Min 7 days & Max - One year. It restricts the holder from withdrawing the amount on demand or pay a penalty, otherwise.

Reserve Requirements: CRR-SLR applicable.

Date of Maturity: No grace period. If the maturity date is a holiday, payment to be made on the immediate preceding working day.

Availability of Loan: Since these instruments do not have any lock-in period, banks do not grant loans against them. In fact, banks cannot even buy back certificates of deposit before maturity.

CREDIT INFORMATION COMPANIES (CICs)

➢ Credit Information Company (CIC) or Credit Bureau is an RBI-licensed and authorized organization that collects, maintains and analyses the consumer and business credit information of individuals and companies across the nation, as provided by the financial institutions. Based on the provided data, Credit Information Company prepares Credit Information Report (CIR) for individuals and Credit Company Report (CCR) for companies. CIC further calculates and generates credit scores for individuals and credit ranks for companies as per their creditworthiness and past credit history.

➢ TransUnion CIBIL is the India's first Credit Information Bureau, which is a repository of factual information on the credit history and repayment records of commercial and consumer borrowers. CIBIL will provide this specific information to its members in the form of credit information reports. Credit information reports can be accessed by only those members who have provided all the data to CIBIL.

➢ CIBIL's equity of Rs. 25 crores is held by SBI, Housing Development Finance Corporation Limited, Dun & Bradstreet Information Services India Private Limited and Trans Union International Inc.

➢ Apart from CIBIL, the other credit information companies are:

a) Equifax Credit Information Services Pvt. Ltd,

b) Experian Credit Information Co. of India Pvt. Ltd, and

c) Highmark Credit Information Services Pvt. Ltd.

COUNTERFEIT BANK NOTES

Each banknote, which is suspected to be counterfeit or is found to be counterfeit, shall be branded with a stamp 'COUNTERFEIT BANKNOTE' and impounded. When a banknote tendered at the counter of a bank branch or treasury is found to be counterfeit, an acknowledgement receipt in the prescribed format must be issued to the tenderer, after stamping the note. No credit to customer's account is to be given for counterfeit notes, if any, in the tender received over the counter/ back-office / currency chest.

a) For cases of detection of counterfeit notes **up to 4 pieces**, in a single transaction, a consolidated report as per the format prescribed should be sent to the police authorities at the end of the month.

b) For cases of detection of counterfeit notes of **5 or more pieces**, in a single transaction, FIRs should be lodged with the Nodal Police Station / Police Authorities. The counterfeit banknotes detected in the cash received by the branch shall be forwarded to local police for investigation by filing the FIR. A copy of the FIR shall be sent to the Forged (Counterfeit) Banknote Vigilance Cell at the HO. of the bank. The counterfeit notes returned after police verification has to be preserved for 3 years subject to half yearly verification.

c) The instructions on compensation to banks of the notional value of counterfeit notes detected and lodging claims for compensation by Forged Note Vigilance Cell of banks stand withdrawn. Penalty at 100% of the notional value of counterfeit notes, in addition to the recovery of loss to the extent of the notional value of such notes, will be imposed.

COMMERCIAL PAPER (CP)

Commercial Paper is an unsecured money market instrument issued in the form of a promissory note and shall be held in a dematerialised form through any of the depositories approved by and registered with SEBI.

a) CP shall be issued in minimum denomination of Rs. 5 lakh & multiples thereof.
b) It shall be issued at a discount to face value.
c) No issuer shall have the issue of a CP underwritten or co-accepted.
d) Options (call/put) are not permitted on a CP.
e) Minimum 7 days and maximum one year.

ELIGIBLE ISSUERS:

a) Companies, including NBFCs and All India FIs, are eligible to issue CPs subject to the condition that any fund-based facility availed of from banks and / or financial institutions is classified as a standard asset by all financing banks / institutions at the time of issue.
b) Other entities like co-operative societies/unions, government entities, trusts, limited liability partnerships and any other body corporate having presence in India with a net worth of Rs. 100 crore or higher;

RATING REQUIREMENT:

Eligible issuers, shall obtain credit rating for issuance of CPs from at least two credit rating agencies (CRAs) registered with SEBI and should adopt the lower of the two ratings. Where both ratings are the same, the issuance shall be for the lower of the two amounts for which ratings are obtained. The minimum credit rating for a CP shall be 'A3' as per rating symbol prescribed by SEBI.

BUYBACK OF CP:

The buyback of a CP, in full or part, shall be at the prevailing market price and should be extended to all investors in the CP issue.
The terms of the buyback should be identical for all investors in the issue. The buyback offer not be made before 30 days from the date of issue. CPs bought back shall stand extinguished.

CREDIT RATING

Ratings is a process to evaluate the securities so that the investor is guided before making his investment. It is the opinion of the rating agency about a specific debt instrument on its capacity to repay principal and interest.

Main Credit Rating Institutions or Agencies approved by RBI:

- Credit Rating Information Services of India Ltd (CRISIL)
- Investment Information & Credit Rating Agency of India Ltd (ICRA)
- Credit Analysis and Research Ltd (CARE).
- India Ratings and Research Private Limited (India Ratings) i.e. erstwhile FITCH India,
- Acuite Ratings and Research Ltd (erstwhile SMERA Ratings Ltd.)
- Informerics Valuation and Ratings Pvt. Ltd.
- Brickwork Ratings India Pvt. Ltd (Recently asked to wind-up by RBI)

EXTERNAL BENCHMARK BASED LENDING

The RBI has decided as follows:

a) Link all new floating rate personal or retail loans (housing, auto, etc.) and floating rate loans to MSE extended w.e.f Oct.01, 2019;

b) Link pricing of loans by scheduled commercial banks for the **Medium enterprises** to an external benchmark effective **1-4-2020.**

External Benchmarks - to link to one of the following:

- Reserve Bank of India policy repo rate;
- Government of India 3-Months Treasury Bill yield published by the Financial Benchmarks India Private Ltd (FBIL);
- Govt. of India 6-Months Treasury Bill yield published by the FBIL;
- Any other benchmark market interest rate published by the FBIL.

b) Banks are free to offer such external benchmark linked loans to other types of borrowers as well.

c) In order to ensure transparency, standardisation, and ease of understanding of loan products by borrowers, a bank must adopt a uniform external benchmark within a loan category; in other words, the adoption of multiple benchmarks by the same bank is not allowed within a loan category.

➢ The provisions of these guidelines shall apply to every SCB's, Small Finance Banks and LABs, (excluding RRBs). These directions shall not be applicable to operations of foreign branches of Indian banks.

Spread under External Benchmark: Banks are free to decide the spread over the external benchmark. However, credit risk premium may undergo change only when borrower's credit assessment undergoes a substantial change, as agreed upon in the loan contract. Further, other components of spread including operating cost could be altered once in three years.

Reset of Interest Rates under External Benchmark: The interest rate under external benchmark shall be reset at least once in three months.

Transition to External Benchmark from MCLR / Base Rate / BPLR:
Existing loans and credit limits linked to the MCLR / Base Rate / BPLR shall continue till repayment or renewal, as the case may be.

➢ **Provided** that floating rate term loans sanctioned to borrowers who, in terms of extant guidelines, are eligible to prepay a floating rate loan without pre-payment charges, shall be eligible for switchover to External Benchmark without any charges / fees, except reasonable administrative / legal costs. The final rate charged to this category of borrowers, post switchover to external benchmark, shall be same as the rate charged for a new loan of the same category, type, tenor and amount, at the time of origination of the loan.

➢ **Provided** that other existing borrowers shall have the option to move to External Benchmark at mutually acceptable terms.

OTHER AMENDMENTS:

All floating rate loans, except the following exempted categories:

a) Loans covered by schemes specially formulated by Government of India wherein banks have to charge interest rates as per the scheme.

b) Working Capital Term Loan (WCTL), Funded Interest Term Loan (FITL), etc. granted as part of the rectification / restructuring package.

c) Loans granted under various refinance schemes formulated by Govt. to CGTMSE vide circular dated 19th May 2023, has introduced following modifications with effect from 1st April 2023 in the existing CGS-II Scheme for NBFCs registered with RBI engaged in financing MSE as defined under the MSMED Act, 2020.

Registration criteria for NBFCs

Risk-Based Guarantee Fee for the guaranteed portfolio based on the risk rating of the portfolio by the external rating agencies empaneled by CGTMSE will be introduced.

Interest Rate Cap: All MSE Loans having Interest rate not exceeding 25% p.a. will be eligible for coverage under the Credit Guarantee Scheme of CGTMSE.

the extent refinance is available. Interest rate charged on the part not covered under refinance shall adhere to the Base rate / MCLR / External Benchmark guidelines.

d) The following categories of loans :

- Advances to banks' depositors against their own deposits;
- Advances to banks' own employees including retired employees.
- Advances granted to the CEO / Whole Time Directors.
- Loans linked to a market determined external benchmark

INTEREST RATES ON ADVANCES IN FOREIGN CURRENCY:

a) Banks shall have the freedom to determine the interest rates on advances in foreign currency as per the comprehensive policy on interest rates on advances duly approved by the Board of Directors or any committee of the Board to which powers have been delegated.

b) The interest rates shall be determined with reference to a market determined external benchmark. The actual lending rates shall be determined by adding the components of spread to the external benchmark.

NBFCs with Vintage up to 3 years:	NBFCs with Vintage more than 3 years:
Minimum Capital to risk weighted asset ratio **(CRAR)** of 20%	Minimum Capital to risk weighted asset ratio **(CRAR)** of 15%
Net NPA is less than or equal to 4%	**Net NPA** is less than or equal to 4%.
Should have **completed one full fiscal year of operations and reported profit**	Should have **reported profit in at least 2 years out of the last 3 years** of audited financial statements.
Minimum Net Owned funds Rs. 20 crore and minimum **asset size** of Rs. 50 crore	Minimum **Net Owned funds** Rs. 50 crore and minimum **asset size** of Rs. 100 crore

MODIFICATION IN CGS-II SCHEME FOR NBFCs

CGTMSE has introduced following modifications with effect from 1st April 2023 in the existing CGS-II Scheme for NBFCs registered with RBI engaged in financing MSE as defined under the MSMED Act, 2020.

Registration criteria for NBFCs

Risk-Based Guarantee Fee for the guaranteed portfolio based on the risk rating of the portfolio by the external rating agencies empaneled by CGTMSE will be introduced.

Interest Rate Cap: All MSE Loans having Interest rate not exceeding 25% p.a. will be eligible for coverage under the Credit Guarantee Scheme of CGTMSE.

FRAMEWORK FOR COMPROMISE SETTLEMENTS & TECHNICAL WRITE-OFFS

The Reserve Bank of India has issued various instructions to regulated entities (REs) regarding compromise settlements in respect of stressed accounts from time to time, including the Prudential Framework for Resolution of Stressed Assets dated June 7, 2019 which recognises compromise settlements as a valid resolution plan.

➢ RBI has now issued a comprehensive regulatory framework governing compromise settlements and technical write-offs covering all the regulated entities. The framework has come into force with immediate effect.

➢ The primary regulatory objective as spelt out by RBI is to enable multiple avenues to lenders to recover the money in default without much delay. Apart from the time value loss, inordinate delays result in asset value deterioration which hampers ultimate recoveries.

➢ As long as larger policy concerns are suitably addressed and the costs of malafide actions are made to be borne by the perpetrators, early recoveries by lenders should be a preferred option, subject to safeguards. Further, continuation of criminal proceedings underway or to be initiated against the borrowers classified as fraud or wilful defaulter, would ensure that perpetrators of any malafide action do not go scot-free.

● **Compromise settlement:** Compromise settlement for this purpose shall refer to any negotiated arrangement with the borrower to fully settle the claims of the RE against the borrower in cash. It may entail some sacrifice of the amount due from the borrower on the part of the REs with corresponding waiver of claims of the RE against the borrower to that extent.

● **Technical write-off:** Technical write-off for this purpose shall refer to cases where the non-performing assets remain outstanding at borrowers' loan account level, but are written-off (fully or partially) by the RE only for accounting purposes, without involving any waiver of claims against the borrower, and without prejudice to the recovery of the same.

● **Board-approved Policies:** REs shall put in place Board-approved policies for undertaking compromise settlements with the borrowers as well as for technical write-offs. The Board approved policy shall comprehensively lay down the process to be followed for all compromise settlements and technical write-offs, with specific guidance on the necessary conditions precedent such as minimum ageing, deterioration in collateral value etc. In respect of compromise settlements, the policy shall contain provisions relating to permissible sacrifice for various categories of exposures while arriving at the settlement amount, after prudently reckoning the current realisable value of security/collateral, where available.

➢ The compromise settlements and technical write-offs shall be without prejudice to any mutually agreed contractual provisions between the RE and the borrower relating to future contingent realizations or recovery by the RE, subject to such claims not being recognised in any manner on the balance sheet of REs at the time of the settlement or subsequently till actual realization of such receivables. Any such claims recognised on the balance sheet of the RE shall render the arrangement to be treated as restructuring.

● **Delegation of Power:** The Board approved policy shall also cover the delegation of powers for approval/sanction of compromise settlements and technical write-offs.

In respect of compromise settlements, it shall be ensured that:

a) Delegation of power for such approvals rests with an authority (individual or committee, as the case may be) which is at least one level higher in hierarchy than the authority vested with power to sanction the credit / investment exposure. Provided that any official who was part of sanctioning the loan (as individual or part of a committee) shall not be part of the approving the proposal for compromise settlement of the same loan account, in any capacity.

b) Proposals for compromise settlements in respect of debtors classified as fraud or wilful defaulter, shall require approval of the Board in all cases.

● **Prudential Treatment:**

➢ Compromise settlements where the time for payment of the agreed settlement amount exceeds **three months** shall be treated as restructuring as defined in terms of the Prudential Framework for Resolution of Stressed Assets dated June 7, 2019.

➢ In case of partial technical write-offs, the prudential requirements in respect of residual exposure, including provisioning and asset classification, shall be with reference to the original exposure, provided that the amount of provision including the amount representing partial technical write-off shall meet the extant provisioning requirements, as computed on the gross value of the asset.

● **Reporting Mechanism:** There shall be a reporting mechanism to the next higher authority, at least on a **quarterly basis**, with respect to compromise settlements and technical write offs approved by a particular authority.

The Board shall mandate a suitable reporting format of the following aspects at the minimum:

(i) Trend in number of accounts and amounts subjected to compromise settlement and/or technical write-off (q-o-q & y-o-y);

(ii) Out of above, separate breakup of accounts classified as fraud, red-Flagged, wilful default and quick mortality accounts;

(iii) Amount-wise, sanctioning authority-wise, and business segment / asset-class wise grouping of such accounts;

(iv) Extent of recovery in technically written-off accounts.

● **Cooling Period:** In respect of borrowers subject to compromise settlements, there shall be a cooling period as determined by the respective Board approved policies before the REs can assume fresh exposures to such borrowers. **Provided that:**

The cooling period in respect of exposures other than farm credit exposures shall be subject to a floor of 12 months. REs are free to stipulate higher cooling periods in terms of their Board approved policies. The cooling period for farm credit exposures shall be determined as per their respective Board approved policies.

● **Treatment of Accounts categorized as Fraud and Wilful Defaulter:** REs may undertake compromise settlements or technical write-offs in respect of accounts categorised as wilful defaulters or fraud without prejudice to the criminal proceeding underway against such debtors.

● **Other Legal Provisions:** The compromise settlements with the borrowers under the above framework shall be without prejudice to the provisions of any other statute in force. Further, wherever REs had commenced recovery proceedings under a judicial forum and the same is pending before such judicial forum, any settlement arrived at with the borrower shall be subject to obtaining a consent decree from the concerned judicial authorities.

CLARIFICATIONS PROVIDED BY RBI IN SHAPE OF FAQ:

1) Does the above RBI circular dilute the penal measures applicable to borrowers classified as wilful defaulter or fraud?

➢ No. The penal measures currently applicable to borrowers classified as fraud or wilful defaulter in terms of the Master Directions on Frauds and the Master Circular on Wilful Defaulters, remain unchanged and shall continue to be applicable in cases where the banks enter into compromise settlement with such borrowers.

➢ Such penal measures entail that no additional facilities should be granted by any bank/ FI to borrowers listed as wilful defaulters, and that such companies (including their entrepreneurs/ promoters) get debarred from institutional finance for floating new ventures for **a period of five years** from the date of removal of their name from the list of wilful defaulters. In addition, borrowers classified as fraud are debarred from availing bank finance for a **period of five years** from the date of full payment of the defrauded amount.

2) Does the minimum cooling period of 12 months prescribed in the above circular imply that even borrowers classified as fraud or wilful defaulter will be able to borrow fresh funds from the lenders after the cooling period?

➢ No. The cooling period has been introduced as a general presciption for normal cases of compromise settlements, without prejudice to the penal measures applicable in respect of borrowers classified as fraud or wilful defaulter as per the Master Directions on Frauds/ Wilful Defaulters.

3) What are the safeguards to ensure that the provisions of compromise settlement with borrowers classified as fraud or wilful defaulter, are not mis-utilized?

➢ Compromise settlement is not available to borrowers as a matter of right; rather it is a discretion to be exercised by the lenders based on their commercial judgement. The prudential guidelines provide sufficient safeguards with regard to such settlements considered by the lenders. All such decisions are required to be taken by lenders as per their Board approved policies, instead of adopting an ad-hoc approach in each case.

➢ Such settlements shall be without prejudice to the criminal proceeding underway or to be initiated, if under consideration of the lenders against such borrowers. The extant penal provisions continue to remain applicable in such cases.

➢ Wherever recovery proceedings are pending before a judicial forum, any settlement arrived at with the borrower shall be subject to obtaining a consent decree from the concerned judicial authorities.

4) As per Framework for Resolution of Stressed Assets dated June 7, 2019, lenders are not permitted to restructure borrower accounts classified as fraud or wilful defaulter, except in case of change in ownership. Why a different treatment is prescribed for compromise settlements for such borrowers?

➢ Restructuring in general entails the lenders having a continuing exposure to the borrower entity even after restructuring and hence, in case of borrowers classified as fraud or wilful defaulter, permitting lenders to continue their credit relationship with the borrower entity would be fraught with moral hazard. On the other hand, a compromise settlement entails a complete detachment of the lender with the borrower. Therefore, permitting lenders to settle with the borrowers as per their commercial judgement would enhance recovery prospects.

5) The circular also permits the lenders to undertake technical write-offs of amount outstanding relating to borrowers in default. Doesn't such a practice encourage default behavior, as the costs of default are borne entirely by the lenders and defaulting borrowers do not face any consequences?

➢ No. Technical write-off refers to cases where the NPAs remain outstanding at borrowers' loan account level, but are derecognised by the lenders only for accounting purposes. Technical write-offs do not entail any waiver of claims against the borrower and thus the lenders' right to recovery is not undermined in any manner. Therefore, the defaulting borrowers are not benefited in any manner and their legal obligation as well as the costs of such defaults for them remain unchanged vis-à-vis the position prior to technical write-offs.

LEGAL ENTITY IDENTIFIER (LEI)

- The LEI code is conceived as a key measure to improve the quality and accuracy of financial data systems for better risk management. **LEI is a 20-digit unique code** to identify parties to financial transactions worldwide.
- The LEI is obtained through Local Operating Units (LOUs), which are organizations authorized by the **Global Legal Entity Identifier Foundation (GLEIF)** to issue LEIs. These LOUs validate the identity and legal status of entities applying for an LEI and maintain the associated reference data.
- The LEI system facilitates improved risk management, regulatory reporting, and data aggregation by providing a standardized and globally accepted identification mechanism. It helps regulators monitor systemic risks, enables better assessment of counterparty risk by financial institutions, and enhances transparency in financial markets.
- As per RBI guidelines, all legal entities, including Private Limited, LLP, Partnership, and Proprietorship, with a total exposure of Rs. 25 crore and above must have an LEI code. Further, RBI has given a time frame as per which by the end of 2025, it will also be mandatory for entities having Rs. 5 crores and above exposure to obtain LEI code.

➢ "Exposure" for this purpose shall include all fund based and non-fund based (credit as well as investment) exposure of banks/FIs to the borrower. Aggregate sanctioned limit or outstanding balance, whichever is higher, shall be reckoned for the purpose. Lenders may ascertain the position of aggregate exposure based on information available either with them, or CRILC database or declaration obtained from the borrower.

➢ RBI has also decided that the guidelines on LEI stand extended to Primary (Urban) Co-operative Banks (UCBs) and NBFCs.

➢ Borrowers who fail to obtain LEI codes from an authorized LOU shall not be sanctioned any new exposure nor shall they be granted renewal/enhancement of any existing exposure. However, Deptt. / Agencies of Central and State Govts (not PSUs registered under Companies Act or established as Corporation) shall be exempted from this provision.

TIMELINE FOR OBTAINING LEI BY BORROWERS

TOTAL EXPOSURE	LEI TO BE OBTAINED ON OR BEFORE
● Above Rs.25 crore	April 30, 2023
● Above Rs.10 crore, up to Rs.25 crore	April 30, 2024
● Rs.5 crore and above, up to Rs.10 crore	April 30, 2025

➢ Further, all single payment transactions of Rs. 50 cr and above undertaken by entities (non-individuals) should include remitter and beneficiary LEI information. This is applicable to transactions undertaken through the NEFT and RTGS. In case of RTGS, both customer payment and inter-bank transactions, meeting the above criterion, should include LEI information.

➢ It is not necessary for Govt. or their Deptt. to obtain LEI or mention LEI number for payment transactions in NEFT and RTGS.

➢ LEI is not required for customer transactions where both remitter and beneficiary are individuals. For transactions, where either or both parties are non-individuals, LEI will be required.

➢ An AD bank must record valid LEI for cross border transactions of INR 50 crore and more undertaken through it on or after October 01, 2022. Post this, the AD bank must report the valid LEI for all cross border transactions, irrespective of the value of the transactions.

➢ However, if the AD bank already has a valid LEI of the entity, it must report it for all transactions irrespective of whether the entity has undertaken a transaction of INR 50 crore or above through it.

● **Recently, SEBI has introduced the Legal Entity Identifier system** for issuers that have listed or are planning to list non-convertible securities, securitized debt instruments, and security receipts to create a global reference data system that uniquely identifies every legal entity that is a party to a financial transaction.

SEBI has instructed issuers having outstanding listed non-convertible securities and issuers having outstanding listed securitized debt instruments and security receipts as on Aug 31, 2023, shall report/ obtain LEI code on or before Sep 1, 2023. Further, issuers proposing to issue and list non-convertible securities, securitized debt instruments and security receipts, on or after September 01, 2023, shall report their LEI code in the Centralized Database of corporate bonds at the time of allotment of the ISIN.

RISK-ADJUSTED RETURN ON CAPITAL (RAROC)

➢ Risk-adjusted return on capital (RAROC) is a risk-adjusted measure of the return on investment. It is a useful tool in assessing potential acquisitions. RAROC is also referred to as a profitability measurement framework, based on risk that allows analysts to examine a company's financial performance and establish a steady view of profitability across business sectors and industries.

➢ The general underlying assumption of RAROC is investments or projects with higher levels of risk offer substantially higher returns. Risk-adjusted return is the return of an investment, such as a stock or bond, relative to its riskiness. Risk-adjusted returns are used to assess how well an investment performs relative to the risk associated with that investment.

RAROC = (Revenues - Costs - Expected Losses) / Economic Capital.

RAROC system allocates capital for two basic reasons:

a) Risk management; **b)** Performance evaluation.

For risk management purposes, the main goal of allocating capital to individual business units is to determine the bank's optimal capital structure - that is economic capital allocation is closely correlated with individual business risk. As a performance evaluation tool, it allows banks to assign capital to business units based on the economic value added of each unit.

DERIVATIVES

A financial contract that derives its value from another financial product / commodity called underlying such as a stock, stock index, a foreign currency, a commodity).

FORWARD: The forward is a contract that is offered Over the Counter to customers having underlying Exchange risks. Forward Purchase contracts are entered in to by Exporters and Forward sale contracts by Importers. All entities with underlying exposures are now entitled to Forward contracts including NRIs, FIIs etc. Forward Contracts determine the Rate and date on which the delivery of Foreign currency takes place. They are structured according to the customer's needs.

OPTIONS: Options are contracts that provide the right but not the obligation to buy or sell a financial instrument. The purchaser of the Option pays a Premium to the option writer. The price agreed to is called Strike price. The purchaser can exercise his right to buy or sell depending upon whether the going market rates are in his favour.

CALL OPTION: Here the Option holder has the right to purchase the specific Currency or any other underlying at the Strike Price. The Option writer is bound to sell at that price.

PUT OPTION: Here the Option holder has the right to sell the specific Currency or any other underlying at the Strike Price. The Option writer is bound to purchase at that price.

EUROPEAN OPTIONS: Here the Option Holder's right can be exercised only at the end of the Option period. There can be European Call Option or European put options depending on whether the right is for "Selling" or "Buying". In India, both European & American options are allowed.

AMERICAN OPTIONS: The Owner's right can be exercised any time during Option period.

SWAPS: A Swap contract means a simultaneous exchange (Sale and Purchase) of a Underlying currency, Interest rate or Commodity. Currency swaps involve exchange of Currencies while as Interest rate swaps involve exchange of interest streams (Principal amounts are not touched, only interest streams are exchanged).

FUTURES: The futures are contracts which have Standard amounts. (USD 10,000,USD 5000 etc) & delivery periods (one month / Two month) and are traded on exchanges, regulated by institutions such as SEBI; They need only margin payment and are marked to market on a daily basis. Futures contract are made primarily for hedging.

FORWARD RATE AGREEMENT (FRA): A FRA is a cash-settled OTC **contract** between two counterparties, where the buyer is borrowing (and the seller is lending) a notional sum at a fixed interest **rate** (the FRA **rate**) and for a specified period of time starting at an **agreed** date in the future.

FRAUD REPORTING

Frauds are to be reported to RBI and police / CBI. Non-reporting of fraud - RBI can impose penalty u/s 47-A of Banking Regulation Act.

- Where amt is Rs.1 lac or above, report to RBI within 3 weeks on FMR – 1.
- Where amount is Rs.1 cr or above, report within 1 week through DO letter and also to regional office of RBI on FMR -1 within 3 weeks of the fraud.

CASH SHORTAGE:

Cases of 'negligence & cash shortage' are to be reported as Fraud if the intention to cheat / defraud is suspected / proved. Cases of cash shortages more than Rs 10,000/- and Cases of cash shortage more than Rs 5,000/- if detected by management / auditor / inspecting officer & not reported on the day of occurrence by the persons handling cash.

Bank Category	Amount involved	Complaints to be lodged with	REMARKS
Private Sector/ Foreign Banks	10,000 and above	STATE POLICE	If committed by staff
	Rs. 1 Lakh and above	STATE POLICE	If committed by outsiders on their own and/or with the connivance of bank staff / officers.
	Rs. 1 crore and above	In addition to State Police, SFIO.	Details of the fraud are to be reported to SFIO in FMR Format
Public Sector Banks	Below 3.00 crore:		
	1) 10,000/ and above but below Rs. 1 Lakh	STATE POLICE	If committed by staff
	2) 1 Lakh and above but below Rs. 3 crore	To the State CID/ EOW of the State concerned	To be lodged by the Regional Head of the bank Concerned
	Rs. 3.00 crore and up to Rs.25 crore	CBI	To be lodged with Anti-Corruption Branch of CBI: where staff involvement is prima facie evident. Economic Offences Wing of CBI: Where staff involvement is prima facie not evident.
	More than Rs 25 crore and up to Rs. 50 crore	CBI	To be lodged with Banking Security and Fraud Cell (BSFC) of CBI (irrespective of the involvement of a public servant)
	More than Rs.50 crore	CBI	To be lodged with Joint Director (Policy) CBI, HQ New Delhi

MONEY MARKET & OTHER TERMINOLOGIES

Call Money	Money lent for overnight
Notice Money	Money lent for a period of 2-14 days
Term Money	Money lent for 15 days or more in Inter-bank market
Held till maturity	Govt. securities which are not meant for sale and are meant to be held in the portfolio till maturity by the banks.
Held for trading	Govt. securities acquired by the banks with the intention to trade by taking advantage of the short-term price / interest rate movement.
Available for sale	Govt. securities which do not fall within the above two categories i.e. HTM or HFT.
Yield to Maturity	Expected rate of return on a security if held till maturity after purchasing (takes in to account the purchase price).
Coupon rate	Specified interest rate on Fixed income securities such as Corporate & Government straight bonds.
Treasury Bills	Short term bonds issued by the Treasury (Govt). Normally Treasury bills are issued as Zero-coupon bonds with 91,182 and 364 days as tenor.
Gilt Edged Security	Government security. It is a secured financial instrument which guarantees certainty of both capital and interest.
Zero-Coupon Bonds	Bonds with no promised periodical coupons (interest). The difference between the purchase value and Maturity value is the value received by the investor.
Dated Securities	Instruments which have tenure over one year. The returns on dated securities are based on fixed coupon rates akin to corporate bonds.
Credit Risk	Risk of default by the borrower / co-borrower.
Market Risk	Changes in the interest rates affecting on the yield on investment on account of trading in securities.
Operational Risk	Failure of system and procedures, hardware or software due to internal / external factors.
Liquidity Risk	Risk arising on account of mismatch in the maturity pattern of Assets and Liabilities.
Systemic Risk	Failure of one big bank leading to failure of other smaller banks thereby eroding the confidence of the public in the financial system.

- **No refinance is available from RBI on Pre-shipment and Post-shipment advance.**

MARKET VALUATION RATIOS

Return on Equity (ROE)	Net Profit after Tax / Equity	Return on Equity / Assets can be compared with the opportunity cost of capital
Return on Asset (ROA)	PAT / Total Assets	It helps the investor to compare his return on his assets
Earning Per Share (EPS)	Profit after Tax / No of outstanding Shares	Measures the profitability of the investment.
Price Earning Ratio (P/E)	Mkt Price Share price / Earning per share	A market indicator which is used for measuring valuations.
Dividend Yield	Dividend per Share / Share price	Dividend yield indicates the returns total the equity investors by way of dividend
Book Value	Total Equity / Number of O/S Shares (per share)	
Mkt Capitalisation	Market price of Shares x No. of Shares issued	

REAL TIME GROSS SETTLEMENT SYSTEM

- An RTGS payment system is one in which payment of **Rs.2 lac and above** (with no upper or maximum ceiling) instructions between banks are processed and settled individually and throughout the day. The settlement is on Gross basis unlike usual Clearing systems which are on Net basis. RTGS now conform to ISO 20022 standards.
- In RTGS, RBI acts as the Settlement agent between the banks. Settlement Risk and Systemic risk are minimized because of RTGS. credit is to be available within **30 minutes**.
- IFSC (Indian Financial System Code) – an 11-digit alphanumeric code that uniquely identifies all banks and their respective branches participating in the online funds transfer process is assigned to each bank branch by the RBI to monitor the online transfer of money.
- Each message has to be assigned with a unique number and provided in the field Transaction Identification. The UTR is unique for a transaction and is 22 characters in length. The structure of UTR is "XXXX**RC**YYYYMMDDnnnnnnnn" where XXXX is IFSC (first 4 character) of sending member, R represents RTGS, C represents channel of the transaction, YYYYMMDD represents year, month and date of the transaction, nnnnnnnn denotes the sequence number.
- RTGS uses a Transaction Type Code (TTC) to identify the type of individual payment messages. The TTC values are in the range of "0000" to "9999".
- A message format (camt.059) is available to communicate an acknowledgement to the remitting bank containing the date and time of credit to beneficiary account. This message would flow from the beneficiary bank to the remitter bank through Structured Financial Messaging System.

- **With effect from 14th Dec. 2020, RTGS operates 24x7x365 throughout the year. The cut-off timings of RTGS at RBI is as follows;**

	Timing / Events	All days
1	Open for business	00.30 hours
2	Cut-Off (**Customer and Inter Bank transactions**)	23.50 hours
3	End of day	00.00 hours

- Intra-Day Liquidity (IDL) facility shall be made available to facilitate smooth operations. The IDL availed, if any, shall be reversed before the 'end-of-day' process begins. In case the IDL availed and pending reversal post execution of cut-off is greater than the Current Account balance of the member, the securities (excess of Current Account balance) against which such IDL was availed of and not repaid shall get transferred to the Investment Account of the RBI. In such a case, the participant shall be liable to **pay interest at twice the Repo Rate** prevailing on the particular day.
- The originating member should release the payment message from their system to RTGS central system **within 30 minutes** of debiting a customer's account. The payment message receiving member may put in place a Straight through Processing (STP) mechanism for crediting the beneficiary's account. The beneficiary banks should **within 30 minutes** of the receipt of the message at the Member Interface. In case of any delay in providing credit to the beneficiary's account, the recipient / beneficiary's bank has to pay **compensation at current repo rate plus 2%** to the beneficiary customer for each day of delay. The compensation amount should be credited to the customer's account automatically without any request.

In case, it is not possible to credit the funds to the beneficiary's account for any reason, the funds shall be **returned to the originating member within one hour of receipt** of the payment at the Member Interface of the recipient member. In case of any delay in returning the payment to the originating member, compensation at current **repo rate plus 2%** to be paid to the originating member and the same shall be ultimately credited to the account of originating customer.

CHARGES:

a) Inward transactions:
Free, no charge to be levied.
b) Outward transactions:
Rs. 2,00,000/- to 5,00,000/- : not exceeding Rs. 24.50/-; (exclusive of tax)
Above Rs. 5,00,000/- : not exceeding Rs. 49.50/-. (Exclusive of tax).

Banks may decide to charge a lower rate but cannot charge more than the rates prescribed by RBI.

- Member banks should **maintain RTGS transactions data for at least 10 years** or such time period as specified by RBI from time to time.
- All payment transactions of value **Rs. 50 crore and above** undertaken by entities (non-individuals) should include remitter and beneficiary Legal Entity Identifier (LEI) information from April 1, 2021

NATIONAL ELECTRONIC FUND TRANSFER (NEFT)

The NEFT has been made available 24X7 w.e.f Dec. 16, 2019. The settlement of first batch will commence after 00:30 hours and the last batch will end at 00:00 hrs. There is **no minimum and maximum amount** of a transaction.

- There will be 48 half-hourly batches every day. The system will be available on all days of the year, including holidays.
- NEFT transactions after usual banking hours of banks are expected to be automated transactions initiated using 'Straight Through Processing (STP)' modes by the banks.
- NEFT uses an Indian Financial System (IFS) code – an Alpha numeric code. It has 11 digits – 1st 4 represent bank code, 5th reserved as control code (presently 0) and remaining 6 are branch code.
- The sending bank branch shall prepare the Structured Financial Messaging System (SFMS) message as and when the application for the funds transfer is received and arranges to send the message to NEFT Service Centre till the cut off time for the batch. The sending Service Centre shall transmit the NEFT SFMS message to the NEFT Clearing Centre by using the communication network designated by RBI.
- In case the person is having no bank account, he can remit funds through NEFT by cash up to a **maximum of 50,000/- per transaction.**
- **<u>PENALTIES:</u>** If the NEFT transaction is not credited or returned within two hours after batch settlement, then the bank is liable to pay penal interest to the affected customer at the current RBI LAF **Repo Rate plus two percent** for the period of delay / till the date of credit or refund, as the case may be, is afforded to the customers' account without waiting for a specific claim to be lodged by the customer in this regard.
- **<u>SERVICE CHARGES FOR NEFT:</u>**

a) Inward transactions: Free, no charges to be collected from beneficiaries.

b) Outward transactions at originating bank branches (charges for the remitter):

- For transactions up to Rs.10,000 (not exceeding): **Rs.2.50 (+ GST).**
- For transactions above Rs.10,000 up to Rs.1 lakh (not exceeding): **Rs.5 (+ GST).**
- For transactions > Rs.1 lakh and up to Rs.2 lakhs (not exceeding): **Rs.15 (+ GST).**
- For transactions above Rs.2 lakhs: **Rs.25 (+ GST).**

With effect from Jan. 01, 2020, banks advised not to levy any charges from their savings bank account holders for NEFT funds transfers initiated online.

- **<u>REMITTANCE ABROAD:</u>**

Indo-Nepal Remittance Facility is a cross-border remittance scheme to transfer funds from India to Nepal, enabled under the NEFT Scheme. The scheme was launched to provide a safe and cost-efficient avenue to migrant Nepalese workers in India to remit money back to their families in Nepal. A ceiling of Rs.50,000 per remittance with a maximum of 12 remittances in a year is applicable for remittances by way of cash from <u>walk-in customers or non-customers</u>.

A ceiling of Rs.2 lakh per remittance is available for account transfers with no cap on number of remittances. The beneficiary would receive funds in Nepalese Rupees.

BHARAT INTERFACE FOR MONEY (BHIM)

BHIM is an app developed by NPCI, that lets the user make simple, easy and quick payment transactions using UPI. The user can make instant bank-to-bank payments and pay and collect money using just Mobile number or Virtual Payment Address (UPI ID). Currently BHIM is available in 20 languages.

SENDING AND REQUESTING MONEY: User can send money by entering Virtual Payment Address (UPI ID), Account number and QR Scan and can collect money by entering Virtual Payment Address (UPI ID). Additionally, through BHIM App, one can also transfer money using Mobile No. (Mobile No should be registered with BHIM or *99# and account should be linked). Customer can also pay by scanning the QR code through Scan and Pay or generate your own QR code to let easy payments to the user.

VPA: A Virtual Payment Address (VPA) is a unique identifier, which the customer can use to send and receive money on UPI.

TRANSACTION THROUGH BHIM: A user can send **up to Rs. 100,000** per transaction **and a maximum of Rs 100,000 per day** for one bank account. This limit is available per bank account linked on BHIM. Existing limit for Bill payments on BHIM is Rs 100,000 per transaction.

RuPay USE ON UPI FOR TRANSACTIONS UP TO RS.2,000/-.

As per NPCIthere will be no charge for RuPay credit card use on Unified Payments Interface (UPI) for transactions up to Rs.2,000. RBI has approved linking of RuPay Credit Cards to UPI, which will provide a seamless, digitally enabled credit card lifecycle experience for the customers. Nil Merchant Discount Rate (MDR) would apply for this category up to the transaction amount less than and equal to Rs. 2,000/-

IMMEDIATE PAYMENT SERVICE (IMPS)

IMPS managed by **NPCI** provides robust and real time fund transfer which offers an instant, 24X7, interbank electronic fund transfer service that could be accessed on multiple channels like Mobile, Internet, ATM, SMS. Banks and non-bank entities (RBI authorized PPI's) are offering IMPS.

TRANSACTIONS LIMIT: The per transaction limit on IMPS is **Rs. 5 lakh** (for all channels except SMS and IVR). The customer can do transactions using IMPS through two options; (i) Using Beneficiary Account no. and IFS Code and (ii) Using Beneficiary Mobile no. and MMID.

- IMPS uses Mobile Money Identifier (MMID) - a **7 digit number**, issued by banks. MMID is one of the input which when clubbed with mobile number facilitates fund transfer.

UNIFIED PAYMENTS INTERFACE (UPI)

UPI is a system that powers multiple bank accounts into a single mobile application (of any participating bank), merging several banking features, seamless fund routing and merchant payments into one hood. All UPI payments are instant and 24/7, regardless of bank's working hours. UPI services are provided by NPCI.

- **UPI PIN:** PI-PIN (UPI Personal Identification Number) is a **4-6 digit** pass code the customer has to create during first time registration with this App.
- **LIMIT:** At present, the upper limit per UPI transaction is **Rs.2 Lakhs.**
- **INVESTING IN IPO USING UPI:** Retail investors can use UPI for investment in IPOs. SEBI has revised the limits for Unified Payment Interface (UPI) in IPOs by retail investors from **Rs 2 lakh to Rs 5 lakh.**

RISK MANAGEMENT

MAJOR RISKS IDENTIFIED IN BANKING BUSINESS

1) Liquidity 2) Interest Rate 3) Credit 4) Market 5) Operational Risk

GUIDELINES TO BANKS FOR MANAGING THESE RISKS

RBI ALM Guidelines: **Liquidity Risk, Interest Rate Risk**
RBI / Basel II Guidelines: **Credit, Market & Operational Risks**

Liquidity Risk	Risk of inability of a bank to meet its contractual obligations due to mismatch in inflows/outflows from assets and liabilities
Interest rate Risk	Risk due to adverse movements in interest rates impacting profitability
Credit Risk	Risk on account of possible default by the borrower / counterparty.
Market Risk	Risk of adverse deviations due to marking to market value of the trading portfolio due to market movements
Operational Risk	Risk of loss due to inadequate or failed internal processes, people, systems or external factors. Examples of such events are Internal, External frauds, Negligence, Data loss etc
Exchange Risk	Risk on account of adverse fluctuation in forex rates
Settlement Risk (Herstatt Risk)	Risk of Counterparty default after the deal is put through and before the settlement. Also known as Herstatt risk due to the famous Herstatt bank incident in Germany.

DEFINITION OF NON-COOPERATIVE BORROWER

A Non-cooperative borrower is one:

a) Who does not engage constructively with his lender by defaulting in timely repayment of dues while having ability to pay;

b) Thwarting lenders' efforts for recovery of their dues by not providing necessary information sought;

c) Denying access to assets financed/collateral securities, obstructing sale of securities.

In effect, a non-cooperative borrower is a defaulter who deliberately stone walls legitimate efforts of the lenders to recover their dues.

CUT-OFF LIMIT: For classifying borrowers as non-cooperative would be those borrowers having aggregate fund-based and non-fund based facilities of Rs.50 million.

COMMISSION PAYABLE TO THE BANKS ON GOVT. TRANSACTIONS.(W.E.F July 01, 2019) + GST @ 18 PER CENT

S.No.	TYPE OF TRANSACTION	UNIT	REVISED RATES
1	Receipts – Physical	per transaction	Rs. 40/-
2	Receipts – e-mode	per transaction	Rs. 9/-
3	Pension Payments	per transaction	Rs. 75/-
4	Payments other than Pension	Per Rs.100 turnover	Rs. 6.5 Paise

SALE & PURCHASE OF NPAs BY BANKS

- The guidelines are applicable to banks, FIs and NBFCs purchasing / selling Non-performing financial assets.
- A NPA shall be eligible for sale to other banks only and now there is no lock in period.
- A bank may purchase/sell Non-performing financial assets from / to other banks only on "without recourse" basis. Banks can sell Non-performing financial assets to other banks only on cash basis.
- An asset should be held by the purchasing bank in its books at least for a period of 12 months before it is sold to other banks.
- The time for realization for purchased NPAs is 3 years. Not less than 10% should be recovered in first year and 5% in each following HY.
- The asset classification for purchasing bank is Standard Asset for first 90 days. For CAR purpose, the risk weightage is 100%.

LOAN TO DIRECTORS

BANKS OWN DIRECTORS:

No loan is permitted as per Sec 20 of B.R. Act. However, loan against Govt. securities, own deposits, NSC, LIC, Staff Loan permitted if director is staff member.

LOAN TO DIRECTORS OF OTHER BANKS:

i) For personal loans granted to any director of other banks, the threshold limit **revised to Rupees five crore.**

ii) Unless sanctioned by the Board of Directors/Management Committee, banks should not grant loans and advances aggregating **Rupees five crore and above to:**

a) Any relative other than spouse and minor / dependent children of their own Chairmen/Managing Directors or other Directors;

b) Chairman/Managing Director or other directors of other banks; (including directors of Scheduled Co-operative Banks, directors of subsidiaries / trustees of mutual funds/venture capital funds).

c) Any firm in which any of the relatives other than spouse and minor / dependent children is interested as a partner or guarantor; and

d) Any company in which any of the relatives other than spouse and minor / dependent children is interested as a major shareholder or as a director or as a guarantor or is in control. (Provided that a relative of a director shall also be deemed to be interested in a Co, being the subsidiary or holding Co, if he is a major shareholder or is in control of the respective holding or subsidiary company.)

EXPLANATION:

i) The term 'personal loan' shall have the meaning assigned to it in the on XBRL Returns – Harmonization of Banking Statistics.

ii) The term 'major shareholder' shall mean a person holding 10% or more of the paid-up share capital or five cr rupees in paid-up shares, whichever is less.

iii) The term 'control' shall include the right to appoint majority of the directors or to control the management or policy decisions exercisable by a person or persons acting individually or in concert, directly or indirectly, including by virtue of their shareholding or management rights or shareholders agreements or voting agreements or in another manner.

LARGE EXPOSURE FRAMEWORK (LEF)

A Bank's exposure sometimes results in concentration of its assets to one party or a group of connected counterparties. This phenomenon gives rise to Concentration risk for the bank. In order to mitigate concentration risk, limits on bank exposure in relation to bank's capital funds, were fixed by RBI in 1989. Thereafter, the norms were revised several times with latest revision made in June 2019 based on BCBS (Basel Committee in Banking Supervision) standards on 'Supervisory framework for measuring and controlling large exposures'. **Revised norms are effective from 1- 4-2019.**

● **SCOPE OF APPLICATION**: Banks have to comply with the LEF norms at two levels:

➢ **Group Level**: Consolidated group including its associates, subsidiaries, branches and joint ventures in India as well as abroad.

➢ **Solo Level: Including overseas operations.**

Entities connected with the sovereign are excluded from the definition of group of connected borrowers or counterparties. Exposures guaranteed by the government, exposure to central / state governments / RBI, Intra-day interbank exposures, Intra group exposures, food credit, banks clearing activities related exposures to Qualifying Central Counterparties and Deposits maintained with NABARD on account of shortfall in achieving PSL targets, stand excluded from counter party exposure.

● **DEFINITION OF LARGE EXPOSURE:**

➢ Sum of all exposure values of a bank to counterparty or a group of connected counterparties is defined as Large Exposure (LE) if it is 10% or above of bank's Tier 1 capital. The exposure includes both on and off-balance sheet exposures.

➢ Exposure to single general single counterparty exposure limit is 20%, which can be extended to 25 percent by banks' Boards under exceptional circumstances.

➢ Further, RBI has decided that a bank's exposure to a single NBFC (excluding gold loan Co's) will be restricted to 20 percent of that bank's eligible capital base. Bank finance to NBFCs predominantly engaged in lending against gold will continue to be governed by limits prescribed above.

➢ The LE limit applied to a Global Systemically Important Bank's (G-SIB) exposure to another G-SIB is set at 15% of eligible capital base. The LE limit of a non-G-SIB in India to a G-SIB in India or abroad is 20% of eligible capital base. Eligible capital base takes into account infusion of Tier 1 capital after the date of last balance sheet. A bank may have exposures to a group of counterparties with dependencies among them in such a way that if one of them fails, all the counterparties would very likely fail. Such a group is treated as single counterparty.

➢ Two or more borrowers are deemed to be a group of connected counterparties, if a control relationship or economic interdependence exists among them.

● **CONTROL RELATIONSHIP:** If one of the counterparties has control over the other(s) or the counterparties are directly or indirectly controlled by a third party, then control relationship exists. In case controlling entity faces financial problems, it is likely to make use of its ability to extract capital or liquidity from the controlled entity, thereby weakening the financial position of the latter. Such clients together form a single risk element. Control relationship exists for entities A and B if:

- A owns more than 50% voting rights of B, or
- A holds significant influence on the appointment or dismissal of B's management or administrative body, or
- A holds significant influence on policy making by senior management of B; say through consent rights over key decisions such as transfer of profit and loss, or
- There is a common holding Co C for subsidiaries A and B. It is immaterial whether bank has made any advance to entity C.

● ECONOMIC INTERDEPENDENCE:

If one of the firms experiences financial difficulties, the related parties are also likely to face funding or repayment difficulties. Banks have to identify possible connected counterparties on the basis of economic interdependence in cases where the sum of all exposures to single counterparty exceeds 5% of Tier 1 capital of the banks.

With the help of any of the following factors, connectedness based on economic interdependence between counterparty A and counterparty B can be established:

- Where 50% or more of A's annual gross receipts or gross expenditure is derived from transactions with B. For example; Co A is a commercial space provider for malls, and mall B utilizes a major portion of A's commercial space accounting for more than 50% of gross receipts for A.
- Where a significant part of A's production is sold to B and B cannot be replaced by other customers. For example a unit A makes auto parts for a particular variant of car manufactured by car maker B. If B fails to buy, then there are no alternative buyers for goods produced by A. In such a scenario goods can remain unsold, resulting in default of loan repayment by A.
- Where the insolvency or default or financial problems of A are likely to cause similar effect on B.
- When the expected source of funds to repay the loans of both the counterparties is same and neither counterparty has another independent source of income for repayment of loan.
- Where one counterparty has fully or partly guaranteed the exposure to other counterparty.
- When the two or more counterparties rely on same source for the majority of their funding needs.

● LOOK THROUGH APPROACH:

Banks have to take into account, their direct and indirect exposure to an underlying asset while calculating total exposure. If a bank has invested in structures such as mutual funds, venture capital funds, securitizations, real estate investment trust etc, which have exposure to an underlying asset, then banks have to include such exposure together with direct exposure to arrive at total exposure.

The bank has to look through the structure for identifying those underlying assets for which the underlying exposure is 0.25% or above of Tier 1 capital.

TYPE OF EXPOSURE (of eligible capital base)	Cap on Exposure
Single counter party	20%
Group of connected counter parties	25%
Additional for exceptional cases allowed by Board	5%
Single NBFCs	20%
Group of connected NBFCs	25%
Group of connected counter parties having NBFCs in the Group	25%
G-SIB exposure to another G-SIB	15%
NON G-SIB in India to another G-SIB	20%

AVAILABILITY OF CASH IN ATMs

The Reserve Bank of India on a review of downtime of ATMs due to cash-outs observed, that ATM operations affected by cash-outs lead to non-availability of cash and cause avoidable inconvenience to the members of the public.

RBI has therefore structured a scheme of Penalty for non-replenishment of ATMs. The banks/ White Label ATM Operators (WLAOs) shall strengthen their systems/ mechanisms to monitor availability of cash in ATMs and ensure timely replenishment to avoid cash-outs. Any non-compliance in this regard shall attract monetary penalty.

Effective Date: The Scheme shall be effective from October 01, 2021.

Condition for counting instances of Cash-Outs in an ATM: When the customer is not able to withdraw cash due to non-availability of cash in a particular ATM.

Procedure: Banks shall submit system generated statement on downtime of ATMs due to non- replenishment of cash to the Issue Department of RBI under whose jurisdiction these ATMs are located. In case of WLAOs, the banks which are meeting their cash requirement shall furnish a separate statement on behalf of WLAOs on cash-out of such ATMs due to non-replenishment of cash. Such statements shall be submitted for every month within five days of the following month i.e., first such statement for the month of October 2021 shall be submitted on or before Nov. 05, 2021 to the Issue Department concerned.

Quantum of Penalty: Cash-out at any ATM of more than ten hours in a month will attract a flat penalty of Rs.10,000/- per ATM. In case of White Label ATMs (WLAs), the penalty would be charged to the bank which is meeting the cash requirement of that particular WLA. The bank, may, at its discretion, recover the penalty from the WLA operator.

RATINGS FOR BANKS

For evaluation and ratings of Indian Banks Sh. S. Padmanabhan committee, has suggested CAMELS ratings.

C - Capital Adequacy
A - Asset Quality
M - Management
E - Earnings Performance
L - Liquidity
S - Systems & Controls

RATING SYSTEM FOR FOREIGN BANKS (CACS)

C- Capital Adequacy
A- Asset Quality
C- Compliance
S- System

SMALL FINANCE BANKS

The Reserve Bank of India has released the guidelines for Licensing of Small Finance Banks in the Private Sector. The objectives of setting up of Small Finance Banks will be to further financial inclusion by provision of savings vehicles, and supply of credit to small business units; small and marginal farmers; micro and small industries; and other unorganised sector entities, through high technology-low cost operations.

- The minimum paid-up equity capital for small finance banks shall be Rs. 200 crore.
- The promoter's minimum initial contribution to the paid-up equity capital of such small finance bank shall at least be 40% in the first 5 years. It is to be bought down to 30% within 10 years and 15% within 15 years from the date of commencement of business of the bank.
- The small finance bank will be subject to all prudential norms and regulations of RBI as applicable to existing commercial banks including requirement of maintenance of CRR and SLR. No forbearance would be provided for complying with the statutory provisions.
- The small finance banks will be required to extend 75% of its Adjusted Net Bank Credit to the sectors eligible for classification as priority sector lending by the Reserve Bank.
- At least 50% of its loan portfolio should constitute loans & advances of up to Rs.25 lakh.

PAYMENT BANKS

The objectives of setting up of Payments Banks will be to further financial inclusion by providing Small savings accounts, and payments / remittance services to migrant labour workforce, low income households, small businesses, other unorganised sector entities and other users, by enabling high volume-low value transactions in deposits and payments / remittance services in a secured technology-driven environment.

ELIGIBLE PROMOTERS:

Existing non-bank Pre-paid Payment Instrument issuers; and other entities such as individuals / professionals; Non-Banking Finance Co's, Corporate Business Correspondents, Mobile Telephone Companies, Super-market chains, Companies, Real sector cooperatives; that are owned and controlled by residents; and public sector entities.

SCOPE OF ACTIVITIES:

a) Acceptance of demand deposits. Payments Bank will initially be restricted to holding a maximum balance of **Rs. 2,00,000** per individual customer.

b) Issuance of ATM/debit cards.

c) Payments banks cannot issue credit cards.

d) Payments and remittance services through various channels.

e) Banking Correspondents of another bank, subject to the RBI guidelines on BCs.

f) Distribution of non-risk sharing simple financial products like mutual fund units and insurance products, etc.

DEPLOYMENT OF FUNDS:

✦ The Payments Bank cannot undertake lending activities.

✦ Apart from amounts maintained as Cash Reserve Ratio (CRR) with the Reserve Bank on its outside demand and time liabilities, it will be required to invest minimum 75 per cent of its 'demand deposit balances' in Statutory Liquidity Ratio (SLR) eligible Government securities / treasury bills with maturity up to one year, and Hold maximum 25 per cent in Current and Time / Fixed deposits with other scheduled commercial banks for operational purposes and liquidity management.

CAPITAL REQUIREMENT:

✦ Minimum paid-up equity capital for payments banks shall be Rs.100 cr.

✦ The Payments Bank should have a leverage ratio of not less than 3 per cent, i.e., its outside liabilities should not exceed 33.33 times its net worth (paid-up capital and reserves).

PROMOTER'S CONTRIBUTION: The promoter's minimum initial contribution to the paid-up equity capital of such payments bank shall at least be 40% for the first five years from the commencement of its business.

ATAL PENSION YOJNA (APY)

Atal Pension Yojana (APY) is Govt. Scheme, which is administered by the Pension Fund Regulatory & Development Authority (PFRDA).

OBJECTIVES: It aims to financially empower the common people of India with a monthly income when they are no longer earning. A higher level of APY enrolments from the informal sector will ensure better life chances for such subscribers in their post-retirement phase and resultant decrease in the burden on social security.

- **ELIGIBILITY FOR APY:** APY is open to all bank account holders who are not members of any statutory social security scheme.
- **AGE OF JOINING AND CONTRIBUTION PERIOD:** The minimum age of joining APY is 18 years and maximum age is 40 years. Therefore, minimum period of contribution by the subscriber under APY would be 20 years or more. Under the APY, the subscribers under the age of 40, would receive the fixed monthly pension of Rs.1000 to Rs.5000 at the age of 60 years, depending on their contributions.
- **ENROLMENT AND SUBSCRIBER PAYMENT:** All bank account holders under the eligible category may join APY with auto-debit facility to accounts, leading to reduction in contribution collection charges.

FUNDING OF APY: Government would provide: Fixed pension guarantee for the subscribers and would co-contribute 50% of subscriber contribution or Rs.1000 p.a., whichever is lower, to eligible subscribers for first five years.

Discontinuation of Payment:

a) After 6 months, account will be freezed.

b) After 1 years, account will be deactivated.

c) After 2 years, account will be closed.

MODE OF PREMIUM: Monthly, Qtly or Half Yearly premium will be auto debited by the bank.

DELAY IN PAYMENTS: Banks shall collect additional amount of Re.1 per month for delay in contribution upto Rs.100 per month, Rs.2 for Rs.101 to Rs.500, Rs.5 for Rs.501 to Rs.1000 and Rs.10 for above Rs.1000.

PRADHAN MANTRI JEEVAN JYOTI BIMA YOJANA

OBJECTIVE: The scheme is offered through LIC or other Life Insurance Co's. The main objective of this scheme is to improve insurance awareness and insurance penetration / density in the country.

ELIGIBILITY: Age group of 18 to 50 and having a bank account. People who join the scheme before completing 50 years can, however, continue to have the risk of life cover up to the age of 55 years subject to payment of premium.

- Risk Coverage: Rs.2 Lakh in case of death for any reason.

PREMIUM: The premium is Rs.436 per annum. It will be auto-debited in one instalment.

- **Appropriation of Premium:**

a) Insurance Premium to LIC / insurance company: Rs.395/- p.a. per member

b) Reimbursement of Expenses to BC / Micro / Corporate / Agent: Rs.30/- p.a. per member.

c) Reimbursement of Administrative expenses to Bank: Rs.11/- p.a per member.

- As per the revised rules, claims for deaths which occur during the first 30 days from the date of enrolment will not be paid, effectively meaning that the risk cover will commence only after the completion of 30 days from the date of enrolment into the scheme by the member. However, deaths due to accidents will be exempt from the lien clause.

SUKANYA SAMRIDDHI SCHEME

Sukanya Samriddhi Yojana (Girl Child Prosperity Scheme) launched by the Govt. with the aim of improving the welfare of female children in India. 'Sukanya Samriddhi Account Scheme', a small savings scheme as a part of the 'Beti Bachao Beti Padhao' (BBB) operation.

Opening and Operation of Account: A legal Guardian / Natural Guardian can open account in the name of Girl Child. Only one account is allowed per girl child. Parents can open this account for a maximum of two children. In case of twins or triplets, this facility will be extended to the third child. Account can be opened in Post Office or authorized bank branches.

Age: The maximum age limit of the girl child for opening this account is 10 years.

Minimum and Maximum amount of Deposits: The a/c may be opened with a deposit of **minimum** of Rs 250. In subsequent years, a minimum of Rs 250/- and a **maximum** of Rs. 1.5 lakh can be deposited during the ongoing financial year. Deposits in an a/c can be made till completion of fifteen years, from the date of opening of the account.

Interest Rate: For Qtr, July to Sept. 2023 the government would be paying **8%** p.a. interest compounded on yearly basis.

Tax: A contribution up to Rs.1.5 lakh qualifies for Income Tax deduction under Sec 80C.

Maturity: The account can be closed after the girl child in whose name the account was opened completes the age of 21. If account is not closed after maturity, the balance will continue to earn interest as specified for the scheme from time to time.

Withdrawal: Up to 50% of the accumulated amount can be withdrawn after the account holder turns 18.

Transferability and Penalty: The account may be transferred anywhere in India if the girl child shifts to a place other than the city or locality where the account stands. An account where minimum amount has not been deposited in a particular year will attract a fine of Rs. 50/- per year.

An individual girl child **cannot have numerous Suknya Samriddhi Accounts.** Only two Suknya Samriddhi Accounts are permitted per family i.e. one for each.

PRADHAN MANTRI SURAKSHA BIMA YOJANA (PMSBY)

The main objective is to raise insurance access in India. It is an accidental death insurance scheme offering accidental death and disability cover for death or disability on account of an accident. The scheme will be a one year cover, renewable from year to year.

- Available to people in age group 18 to 70 years with bank account.
- This scheme will offer an accidental death and full disability cover of Rs.2 Lakh and for partial disability cover of Rs.1 Lakh.
- The premium is Rs.20/- per annum per member.
- The premium will be deducted from the a/c holder's savings bank account through 'auto debit' facility in one installment on or before 1st June of each annual coverage period.

TERMINATION OF BENEFIT COVER: On attaining age 70 years or the age nearest birth day. In case a subscriber is covered by more than one account and premium is paid by the subscriber intentionally, insurance cover will be restricted to one only and the premium shall be liable to be forfeited.

PMMY: PRADHAN MANTRI MUDRA YOJANA

- MUDRA: Micro Units Development & Refinance Agency Ltd. It is a new institution set up by Govt. to provide funding to the non-corporate, non-farm sector income generating activities of micro and small enterprises whose credit needs are below Rs. 10 Lakh.
- Under the aegis of Pradhan Mantri MUDRA Yojana (PMMY), MUDRA has created three products i.e. 'Shishu', 'Kishore' and 'Tarun' as per the stage of growth and funding needs of the beneficiary micro unit. **Shishu covers** loans up to Rs.50,000/-. **Kishore covers** loans above Rs.50,000/- and up to 5,00,000/-; & **Tarun** covers loans above Rs.5,00,000/- and up to 10,00,000/-.
- Mudra Loans could be availed for Vehicle loan, Business Installment Loan (BIL) & Business Loans Group Loans (BLG) & Rural Business Credit (RBC).
- When the loan is passed, one will get a MUDRA card, similar to a credit card with limit up to 20% of loan amount to purchase working capital.
- Under Mudra scheme, no collateral or loan application fee is required.
- Now it is called MUDRA Small Industries Development Bank of India.

STAND UP INDIA SCHEME

- **Purpose:** For setting up a new enterprise (Only Green Field Project) in manufacturing, trading or services sector by SC/ST/Women Entrepreneur.

Green Field Project signifies, the first time venture of the borrower in the manufacturing or services or trading sector.

- **Eligibility:** Individuals, Proprietorships, Partnerships, Limited Liability Partnership, Pvt Ltd Companies, Public Ltd Companies. In case of non-individual enterprises, 51% of the shareholding and controlling stake should be held by either SC/ST and/or Women Entrepreneur.
- **Quantum:** Minimum above Rs. 10 Lacs and Maximum Rs.100 Lacs
- **Margin:** 15% of the Project Cost. Margin money can be provided in convergence with eligible Central / State schemes. Activities allied to agriculture e.g. pisciculture, beekeeping, poultry, livestock, rearing, grading, sorting, aggregation, agro industries, dairy fishery, agri clinic and agri business centers, food & agro-processing, etc) become eligible.
- **Collateral Security:** Credit facilities extended as per Stand-Up India would be eligible for guarantee cover under Credit Guarantee Scheme for Stand Up India. No Collateral security or third party guarantee should be attached with the credit facility. If not covered / Not eligible to be covered under CGTMSE/CGFSIL, the borrower shall provide collateral security in the form of land & building to the extent of 100%.
- **Repayment:** Seven Years for Term Loan.
- **Repayment Holiday:** 18 months.

REVISION IN ANNUAL PREMIUM RATES FOR PMJJBY & PMSBY

- Department of Financial Services, Ministry of Finance, have announced revision of annual premium rates for PMJJBY and PMSBY schemes with effect from 1st June 2022.
- **As per the guidelines, the annual premium for:**
  - **a) PMJJBY increased from Rs.330/- to Rs.436/-**, and
  - **b) PMSBY has been increased from Rs.12/- to Rs.20/-.**
- Another, change made in the schemes is on the commission / operational cost payable to Banks. The payments of administrative and operational cost payable to the Banks have been revised to **Rs.17/-** per annum per enrolment under PMJJBY and **Rs.1.50/-** per annum per enrolment under PMSBY. Both the above costs payable to Banks are inclusive of the annual commission payable to BCs/Agents etc.
- The cover under both the schemes shall be for one year period stretching from 1st June to 31st May. However, delayed enrolment under PMJJBY for prospective cover is possible with payment of pro-rata premium as below:

PERIOD OF ENROLMENT	Pro-rata Premium
June, July and August	Full Annual Premium of Rs.436/- is payable
September, October, and November	Rs.342/-
December, January and February	Rs. 228/-
March, April and May	Rs. 114/-

PRADHAN MANTRI AWAS YOJANA (PMAY)

(ABHILASHA AWAS YOJANA)

PMAY was introduced with the aim to provide affordable housing to the urban poor population in India by 2022.

Ministry of Housing and Urban Affairs has extended the time-line for Pradhan Mantri Awas Yojana-Urban (PMAY-U) up till 31st December 2024.
Credit linked subsidy is provided to EWS, LIG and MIG beneficiaries under the scheme. The funds borrowed by EWS can be used to add a room, kitchen or balcony to their existing house or for construction of a new house. A family not owning a house in any part of India is eligible for availing benefits of the scheme.

CRITERIA FOR AVAILING CLSS

Particulars	EWS	LIG
Annual Household Income	Upto Rs.3 lakh	Rs.3 lakh to Rs.6 lakh
Maximum Loan Tenure	20 years	20 years
Maximum Loan Amount	30 Lakh	30 Lakh
Max. Loan elligble for Interest Subsidy	6 lakh	6 lakh
Max Carpet Area	30 sq. m.	60 sq. m.
Interest Subsidy %	6.50%	6.50%
Nodal Agency	HUDCO and NHB	
Max. Subsidy amount payable	2.68 Lakh	2.68 Lakh

PRADHAN MANTRI JAN DHAN YOJANA

- The Government has decided to make the Pradhan Mantri Jan Dhan Yojana (PMJDY) an open-ended scheme and added more incentives to identification encourage people to open bank accounts. The Finance Minister has stated that over-draft limit for account holders has now been doubled to Rs 10,000.
- The free accident insurance cover for those opening Jan Dhan accounts after August 28, 2018 too has been doubled to Rs 2 lakh.

CRITERIA FOR PMEGP UNITS UNDER ANIMAL HUSBANDRY

Activities under animal husbandry like dairy, poultry, aquaculture, piggery etc were allowed under PMEGP. Based on queries from field, KVIC vide circular dated 06 December 2022 clarified that, PMEGP units engaged in activities of animal husbandry shall be categorized under services sector, ie maximum project cost eligible for subsidy shall be limited to Rs.20.00 Lakhs only for first loan. Further, the cost of livestock shall be considered under the capital expenditure/term loan. However, the cost of; livestock shall be considered based on NABARD rates for concerned states.

REVISED GUIDELINES ON PM SVANidhi 2.0

On 1st June 2022, Ministry of Housing and Urban Affairs, has notified the revised guidelines for PM SVANidhi 2.0 as hereunder:

➢ The scheme has been extended from March 2022 to December 2024.The credit guarantee and interest subsidy claims on all loans will be paid till March 2028.

➢ **Loan amount:**

➢ Provision of 3rd loan up to Rs.50,000/- with a maximum term of 36 months has been allowed on repayment of 2nd Loan of Rs.20,000/- (The first loan is up to Rs.10000/-).

➢ **Minimum repayment period for 2nd loan:** The minimum repayment period for 2nd loan is kept at 6 months to be eligible for next cycle of loan with enhanced limit. If the beneficiary repays the 2nd loan, he will have to wait till the minimum repayment period fixed before being eligible for the next higher amount of loan.

➢ **Interest Subsidy:** The street vendors availing loans under this scheme are eligible for **interest subsidy @ 7% for all loans** (1st, 2nd and 3rd) provided the accounts remain as Standard Asset on the respective claim date and the interest subsidy will be paid only for the period during which the account remained as standard. Lending institutions should claim the interest subsidy on half yearly basis as on June 30 and December 31st each year.

➢ **Credit Guarantee coverage:** Presently, the scheme provides guarantee coverage for 1st and 2nd loans as per following; (Applicable for all loans disbursed up to 31st May 2022)

a) **First Loss** (Upto 5%): 100% of the default portfolio.

b) **Second Loss** (beyond 5% and up to 15%): 75% of the default portfolio.

c) **Maximum coverage** is 15% of the year portfolio and effective guarantee coverage is 12.50% of the year portfolio.

d) **For all fresh 1st and 2nd loans** disbursed after 1st June 2022 and 3rd loans, revised guarantee coverage as indicated below will be applicable.

CREDIT GUARANTEE COVERAGE

	Fresh 1st Loan		Fresh 2nd Loan		3rd Loan	
	Portfolio	Coverage	Portfolio	Coverage	Portfolio	Coverage
First Loss	0 to 7.5%	100%	0 to 3%	100%	0 to 8 %	75%
Second Loss	Above 7.5% to 20%	75%	Above 3% to 10%	75%		
Third Loss	Above 20% to 50%	50%				
Maximum Guarantee Cover		50%	10%		8%	
Effective Guarantee Cover		31.875 %	8.25%		6%	

PRADHAN MANTRI VAYA VANDANA YOJANA

- The Government has launched Pradhan Mantri Vaya Vandana Yojana (PMVVY), a pension scheme exclusively for senior citizens aged 60 years and above. Under this scheme, senior citizens will get a guaranteed interest of 8% for 10 years depending upon the investment made by them. This PMVVY scheme is available till March 2023. LIC has been given the sole privilege to operate the scheme.
- **Pension Payment:** On survival of the Pensioner during the policy term of 10 years, pension in arrears (at the end of each period as per mode chosen) shall be payable.

➢ **Death Benefit:** On death of the Pensioner during the policy term of 10 years, the Purchase Price shall be refunded to beneficiary.

- **ELIGIBILITY CONDITIONS:**

Minimum & Maximum Age for entry: Minimum age for investment is 60 years and there is no maximum age for entry.
Amount: Rs. 1,50,000/- to 15,00,000/-
Policy Term: The policy term is 10 years.
Rate of Return: The Scheme provides an assured return of 8% p.a. payable monthly (equivalent to 8.30% p.a. effective) for 10 years.

- **Payment of Purchase Price:** The scheme can be purchased by payment of a lump sum Purchase Price.
- **Pension Payment:** Monthly / Quarterly / Half-yearly / Yearly.

DEPOSIT INSURANCE & CREDIT GUARANTEE CORPORATION (DI&CGC)

- **Maximum coverage:**

Rs. 5,00,000 for both principal and interest amount held by him in the same right and same capacity as on the date of liquidation / cancellation of bank's licence or the date on which the scheme of amalgamation / merger / reconstruction comes into force.
As per RBI guidelines deposit held in the name of A and B, and B and A, in two separate accounts will be treated as separate account.

- **Premium:** 12 paisa per Rs.100/- p.a., payable on half yearly basis in advance within 2 months of beginning of the half year.

Premium payable on balance as on the last day of the previous half year to be **borne by bank.** Bank to submit return on DI-01 while paying premium.

- **Ineligible category:**

a) Deposit in the name of Central Govt / State Govt.,
b) Inter Banks and Foreign Govt. not covered.
c) Deposits of the State Land Development Banks with the St. Co-op Bank's.
d) Any amount due on account of and deposit received outside India
e) Credit balance in CC a/c's covered.

➢ According to the DI&CGC (Amendment) Bill 2021, depositors of a stressed bank, put under moratorium, will be able to withdraw up to Rs. 5 lakhs. A list showing the outstanding deposits of each depositor of the insured bank will have to be furnished by the bank within 45 days.

➢ The DI&CGC, within 30 days of receiving the list, will have to verify the authenticity of the claims made and ascertain the willingness of each depositor to receive the amount due to him, out of his deposit in the insured bank. The entire process, from the time a bank is placed under moratorium to depositors receiving the insured amount, should not exceed 90 days.

RED FLAGGED ACCOUNTS

An RFA is one where suspicion of fraudulent activity is thrown up by the presence of one or more Early Warning Signals (EWS). The threshold for EWS and RFA is an exposure of Rs.500 million or more at the level of a bank irrespective of the lending arrangement (whether solo banking, multiple banking or consortium).

BANK AS A SOLE LENDER: In cases where the bank is the sole lender, the FMG will take a call on whether an account in which EWS are observed should be classified as a RFA or not. This exercise should be completed as soon as possible and in any case within a month of the EWS being noticed. In case the account is classified as a RFA, the FMG will stipulate the nature and level of further investigations or remedial measures necessary to protect the bank's interest within a stipulated time which cannot exceed six months.

- The bank may use external auditors, including forensic experts or an internal team before taking a final view on the RFA. At the end of this time line, which cannot be more than six months, banks would either lift the RFA status or classify the account as a fraud.

LENDING UNDER CONSORTIUM OR MULTIPLE BANKING ARRANGEMENTS (MBA):

- The extant guidelines provide that all the banks which have financed a borrower under MBA should take co-ordinated action, based on a commonly agreed strategy, for legal / criminal actions and the bank which classifies or declares a fraud should report the same to CFMC, RBI within the deadlines specified.
- The initial decision to classify any standard or NPA account as RFA or Fraud will be at the individual bank level and it would be the responsibility of this bank to report the RFA or Fraud status of the account on the CRILC platform so that other banks are alerted.
- Thereafter, within 15 days, the bank which has red flagged the account or detected the fraud would ask the consortium leader or the largest lender under MBA to convene a meeting of the JLF to discuss the issue. The meeting of the JLF so requisitioned must be convened within 15 days of such a request being received.
- In case there is a broad agreement, the account would be classified as a fraud; else based on the majority rule of agreement amongst banks with at least 60% share in the total lending, the account would be red flagged by all the banks and subjected to a forensic audit commissioned or initiated by the consortium leader or the largest lender under MBA.
- The forensic audit must be completed within a maximum period of three months from the date of the JLF meeting authorizing the audit. Within 15 days of the completion of the forensic audit, the JLF will reconvene and decide on the status of the account, either by consensus or the majority rule as specified above. In case the decision is to classify the account as a fraud, the RFA status would change to Fraud in all banks and reported to RBI and on the CRILC platform within a week of the said decision. Besides, within 15 days of the RBI reporting, the bank commissioning/ initiating the forensic audit would lodge a complaint with the CBI on behalf of all banks in the consortium/MBA.

- The overall time allowed for the entire exercise to be completed is 6 months from the date when the first member bank reported the account as RFA or Fraud on the CRILC platform.

STAFF ACCOUNTABILITY: As in the case of a/cs categorised as NPAs, banks must initiate and complete a staff accountability exercise within six months from the date of classification as a Fraud. Wherever felt necessary or warranted, the role of sanctioning officials may also be covered under this exercise. The completion of the staff accountability exercise for frauds and the action taken may be placed before the SCBF and intimated to the RBI at quarterly intervals as hitherto.

PENAL MEASURES FOR FRAUDULENT BORROWERS: Borrowers who have defaulted and have also committed a fraud in the account would be debarred from availing bank finance from Banks, Development Financial Institutions, Govt. owned NBFCs, Investment Institutions, etc., for a period of five years from the date of full payment of the defrauded amount. After this period, it is for individual institutions to take a call on whether to lend to such a borrower. The penal provisions would apply to non-whole time directors (like nominee directors and independent directors) only in rarest of cases based on conclusive proof of their complicity.

- No restructuring or additional facilities may be made in the case of RFA or fraud A/cs. Further no compromise settlement involving a fraudulent borrower is allowed unless the conditions stipulate that the criminal complaint will be continued.

CENTRAL FRAUD REGISTRY

The RBI has operationalised a Central Fraud Registry (CFR) with effect from January 20, 2016. Along with early detection mechanisms for frauds, a CFR is also proposed to be created simultaneously as a searchable centralised database for use by banks'.

- Frauds of Rs. 0.1 million and above but below Rs. 50 million will be monitored by the respective regional office of the Reserve Bank under whose jurisdiction the Head Office of the bank falls / Senior Supervisory Manager (SSM) of the bank. Frauds of Rs. 50 million and above will be monitored by Central Fraud Monitoring Cell (CFMC).
- Flash reports are to be sent in fraud cases of Rs. 50 million and above to the CGM-in-charge, Deptt. of Banking Supervision, CO with a copy to CFMC.
- To protect customers, RBI has issued instructions providing for zero liability of a customer where an unauthorised electronic transaction occurs due to contributory fraud or negligence or deficiency on the part of the bank, irrespective of whether or not the transaction is reported by the customer, and where a third-party breach occurs and the deficiency lies neither with the bank nor with the customer but elsewhere in the system, and the customer notifies the bank within three working days of receiving communication from the bank regarding the transaction Further, under RBI's Banking Ombudsman Scheme, customers can lodge a complaint with the Banking Ombudsman against banks, for non-adherence to RBI's instructions regarding mobile/electronic banking services.

OFFICIAL LANGUAGE

- **Hindi Divas:** To be observed on Sept. 14. States / UTs are classified into 3 categories for the purpose of official Language policy.
- **Region–A:** HP, Haryana, Rajasthan, M.P., U.P., Bihar, Uttarakhand, Jharkhand, Chhatisgarh and UT of Delhi, Andaman Nicobar.
- **Region–B:** Maharashtra, Gujarat, Punjab and UT Chandigarh.
- **Region–C:** All other States and UTs, J &K, Pondichery.
- Public Sector Banks to follow Official Language Act 1963 /Official Language Rules 1976 while using Hindi as official language. Progress of use of Hindi monitored by RBI.
- **Official Language Implementation Committee:** At HQs and all branches committee to meet once in a quarter to review.
- **Target for Correspondence: (i)** A to A, A to B 100%, **(ii)** B to A, B to B 90% **(iii)** A to C 65% **(iv)** C to A, C to B, C to C, B to C 55%
- Letter received in Hindi should be answered in Hindi 100%. (Rule 5)
- Correspondence received in Hindi from Central / State govt. should be replied in Hindi.

RATING AGENCIES

As per Basel III Capital Regulations, the list of domestic credit rating agencies was accredited by RBI for the purpose of risk weighting banks' claims for capital adequacy purposes.

➢ On a review, RBI has advised the banks to use the ratings of the following domestic credit rating agencies for risk weighting their claims for capital adequacy purposes:

a) Acuite Ratings & Research Limited (Acuite)
b) Credit Analysis and Research Limited (CARE);
c) CRISIL Ratings Limited;
d) ICRA Limited;
e) India Ratings and Research Private Limited (India Ratings); and
f) INFOMERICS Valuation and Rating Pvt Ltd. (INFOMERICS).

MUMBAI INTERBANK FORWARD OUTRIGHT RATE

The Reserve Bank of India has announced a significant change that will impact the financial landscape. After June 30, 2023, the Mumbai Interbank Forward Outright Rate (MIFOR) shall cease to be recognised as a significant benchmark'. This decision comes as a result of the cessation of the US Dollar LIBOR.

Mumbai Interbank Forward Outright Rate (MIFOR) is one such financial bench mark notified by FBIL which is linked to LIBOR. In light of the cessation of the publication of US Dollar London Interbank Offered Rate (USD LIBOR) settings after June 30, 2023, FBIL has been accorded approval to cease the publication of the MIFOR after June 30, 2023.

The updated list of 'significant benchmarks' administered by FBIL with effect from July 01, 2023 are

a) Overnight Mumbai Interbank Outright Rate (MIBOR)
b) USD/INR Reference Rate
c) Treasury Bill Rates
d) Valuation of Government Securities
e) Valuation of State Development Loans (SDL)
f) Modified Mumbai Interbank Forward Outright Rate (MMIFOR).

LOAN SYSTEM FOR DELIVERY OF BANK CREDIT

With a view to enhance credit discipline among the larger borrowers enjoying working capital facility from the banking system, RBI has advised that delivery of bank credit for such borrowers shall be as under:

1) **Minimum level of 'loan component' and Effective date:**

In respect of borrowers having aggregate fund based working capital limit of **Rs.1500 million and above** from the banking system, a minimum level of 'loan component' of 40% effective from April 1, 2019. The 40% loan component revised to 60%, w.e.f 1-7-19.

- Accordingly, for such borrowers, the outstanding 'loan component' (Working Capital Loan) must be equal to at least 40% of the sanctioned fund based WC limit, including ad hoc limits and TODs. Hence, for such borrowers, drawings up to 40% of the total fund based WC limits shall only be allowed from the 'loan component'. Drawings in excess of the minimum 'loan component' threshold may be allowed in the form of cash credit facility.
- The bifurcation of the WC limit into loan and cash credit components shall be effected after excluding the export credit limits (pre-shipment and post-shipment) and bills limit for inland sales from the working capital limit.
- Investment by the bank in the CP's issued by the borrower shall form part of the loan component, provided the investment is sanctioned as part of the working capital limit.

2) **Sharing of WC Finance:** All lenders in the consortium shall be individually and jointly responsible to make sure that at the aggregate level, the 'loan component' meets the above mentioned requirements at individual bank level.

3) **Amount & tenor of the loan:** The amount & tenor of the loan component may be fixed by banks in consultation with the borrowers, subject to the tenor being not less than 7 days. Banks may decide to split the loan component into WCLs with different maturity as per needs of the borrowers.

4) **Repayment/Renewal/Rollover of Loan Component:** Banks / consortia / syndicates will have the discretion to stipulate repayment of the WCLs in installments or by way of a "bullet" repayment, subject to IRAC norms. Banks may consider rollover of the WCLs at the request of the borrower.

5) **Risk weights for undrawn portion of Cash Credit limits:** WEF 1-4- 19, the undrawn portion of cash credit / overdraft limits sanctioned to the aforesaid large borrowers, irrespective of whether unconditionally cancellable or not, shall attract a credit conversion factor of 20% The guidelines will be effective from 1-1-19 covering both existing as well as new relationships.

Example for Bifurcation of Working Capital Limits

(Rs. in million)

S. No.	Sanctioned Aggregate Fund based WC Limit	Current Outstanding	40% of column 2 is to be drawn as WCL
Scenario 1	Rs.2100	Rs.780	WCL - Rs.780; CC – Nil
Scenario 2	Rs.2100	Rs.1700	WCL - Rs.840; CC - Rs.860
Scenario 3	Rs.2100	Rs.1600	WCL - Rs.840 ; CC - Rs.760
Scenario 4	Rs.2100	Rs.2000	WCL - Rs.840 ; CC - Rs.1160
Scenario 5	Rs.2100	Rs.2050	WCL - Rs.840 ;CC - Rs.1210

PROVISIONING COVERAGE RATIO (PCR)

- The PCR gives an indication of the provision made against bad loans from the profit generated. Higher the PCR, lower is the unexposed part of the bad debts.
- **PCR** is essentially the ratio of provisioning to gross non-performing assets and indicates the extent of funds a bank has kept aside to cover loan losses. In India, currently provisioning requirements for NPAs range between 10% and 100% of the outstanding amount, depending on the age of the NPAs, the security available and the internal policy of the Bank.
- The rates of provisioning stipulated by RBI for NPAs are the minimum and Banks can make additional provisions subject to a consistent policy. This has led to a wide heterogeneity and variance in the level of provisioning coverage ratio among Banks.

$$\text{PCR} = \frac{\textbf{Specific NPA Provisions + Technical / Prudential write-off}}{\textbf{Gross NPA + Technical / Prudential write-off}} \times 100$$

From a macro-prudential perspective, banks should build up provisioning and capital buffers in good times i.e., when the profits are good, which can be used for absorbing losses in a downturn. This will enhance the soundness of individual banks, as also the stability of the financial sector. RBI therefore, decided that banks should augment their provisioning cushions consisting of specific provisions against NPAs as well as floating provisions, and ensure that their total provisioning coverage ratio, including floating provisions, is not less than 70%. Accordingly, banks were advised to achieve this norm not later than end-September 2010.

PROMPT CORRECTIVE ACTION (PCA) SCHEME

(REVISED FRAMEWORK)

➢ The Reserve Bank of India has revised the existing Prompt Corrective Action Framework for Scheduled Commercial Banks (excluding Small Finance Banks, Payment Banks & Regional Rural Banks) effective from January 1, 2022.

➢ The objective of the PCA Framework is to enable Supervisory intervention at appropriate time and require the Supervised Entity to initiate and implement remedial measures in a timely manner, so as to restore its financial health. The PCA Framework is also intended to act as a tool for effective market discipline. The PCA Framework does not preclude the RBI from taking any other action as it deems fit at any time, in addition to the corrective actions prescribed in the Framework.

PCA Framework

A) The key areas for monitoring in the revised framework will be Capital, Asset Quality and Leverage.

B) Indicators to be tracked for Capital, Asset Quality and Leverage would be CRAR/ Common Equity Tier I Ratio, Net NPA Ratio and Tier I Leverage Ratio respectively.

C) Breach of any risk threshold as detailed below may result in invocation of PCA.

MANDATORY AND DISCRETIONARY ACTIONS		
SPECIFICATIONS	MANDATORY ACTIONS	DISCRETIONARY ACTIONS
Risk Threshold 1	Restriction on dividend distribution / remittance of profits. Promoters/Owners/Parent (in the case of foreign banks) to bring in capital	<u>Common menu</u> Special Supervisory Actions Strategy related Governance related Capital related Credit risk related Market risk related HR related Profitability related Operations/Business related Any other
Risk Threshold 2	In addition to mandatory actions of Threshold 1, Restriction on branch expansion; domestic and/or overseas	
Risk Threshold 3	In addition to mandatory actions of Threshold 1 & 2, Appropriate restrictions on capital expenditure, other than for technological upgradation within Board approved limits	

COMMON MENU FOR SELECTION OF DISCRETIONARY CORRECTIVE ACTIONS

1) Special Supervisory Actions;
2) Strategy Related Actions;
3) Governance Related Actions;
4) Capital Related Actions;
5) Credit Risk Related Actions;
6) Market Risk Related Actions.
7) H.R. Related Actions;
8) Profitability Related Actions.
9) Operations Related Actions;
10) Other Actions.

ATMs/CASH RECYCLER MACHINES:

Reserve Bank of India had constituted a Committee under the Chairmanship of the Chief Executive, Indian Banks' Association to review the entire gamut of Automated Teller Machine (ATM) charges and fees due the increasing cost of ATM deployment and expenses towards ATM maintenance incurred by banks / white label ATM operators.

RBI has decided to allow increase in interchange fee per transaction from Rs.15 to Rs.17 for financial transactions and from Rs.5 to Rs.6 for non-financial transactions in all centres.

Banks allowed to increase the customer charges to Rs. 21 per transactions w.e.f Jan 01, 2022, if the customer exceeds the monthly limit of free transactions.

a) Customers are eligible for five free transactions (inclusive of financial and non-financial transactions) every month from their own bank ATMs. They are also eligible for free transactions (inclusive of financial and non-financial transactions) from other bank ATMs viz., three transactions in metro centres and five transactions non-metro centres.

b) Applicable taxes, if any, shall be additionally payable.

c) These instructions shall also apply, to transactions done at Cash Recycler Machines (other than for cash deposit transactions).

INTEROPERABILITY OF PREPAID PAYMENT INSTRUMENTS (PPIs):

➢ RBI has made interoperability mandatory for full-KYC PPIs and for all acceptance infrastructure. To incentivise the migration of PPIs to full-KYC, it is proposed to increase the limit of outstanding balance in such PPIs from the current level of **Rs.1 lakh to Rs.2 lakh.**

PCA MATRIX – PARAMETERS, INDICATORS AND RISK THRESHOLDS				
Parameter	Indicator	Risk Threshold 1	Risk Threshold 2	Risk Threshold 3
(1)	(2)	(3)	(4)	(5)
Capital (Breach of either CRAR or CET 1 ratio)	CRAR - Minimum regulatory prescription for Capital to Risk Assets Ratio + applicable Capital Conservation Buffer (CCB) **and/or** Regulatory Pre-Specified Trigger of Common Equity Tier 1 Ratio (CET 1 PST) + applicable CCB	Upto 250 bps below the Indicator prescribed at column (2) Upto 162.50 bps below the Indicator prescribed at column (2)	More than 250 bps but not exceeding 400 bps below the Indicator prescribed at column (2) More than 162.50 bps below but not exceeding 312.50 bps below the Indicator prescribed at column (2)	In excess of 400 bps below the Indicator prescribed at column (2) In excess of 312.50 bps below the Indicator prescribed at column (2)
	Breach of either CRAR or CET 1 ratio to trigger PCA			
Asset Quality	Net Non -Performing Advances (NNPA) ratio	>=6.0% but <9.0%	>=9.0% but < 12.0%	>=12.0%
Leverage	Regulatory minimum Tier 1 Leverage Ratio	Upto 50 bps below the regulatory minimum	More than 50 bps but not exceeding 100 bps below the regulatory minimum	More than 100 bps below the regulatory minimum

- **CET 1 Ratio:** The percentage of common equity capital, net of regulatory adjustments, to total risk weighted assets as defined in RBI Basel III guidelines.
- **NNPA Ratio:** The percentage of net NPAs to net advances.
- **Tier 1 Leverage Ratio:** The percentage of the capital measure to the exposure measure as defined in RBI guidelines on Leverage ratio

D) The PCA Framework would apply to all banks operating in India including foreign banks operating through branches or subsidiaries based on breach of risk thresholds of identified indicators.

E) A bank will generally be placed under PCA Framework based on the Audited Annual Financial Results and the ongoing Supervisory Assessment made by RBI. RBI may impose PCA on any bank during the course of a year (including migration from one threshold to another) in case the circumstances so warrant.

F) **Exit from PCA and Withdrawal of Restrictions under PCA** will be considered if no breaches in risk thresholds in any of the parameters are observed as per four continuous quarterly financial statements, one of which should be Audited Annual Financial Statement (subject to assessment by RBI); and Based on Supervisory comfort of the RBI, including an assessment on sustainability of profitability of the bank.

G) When a bank is placed under PCA, one or more of the following corrective actions may be prescribed:

INSOLVENCY AND BANKRUPTCY CODE, 2016

- Bankruptcy is a legal status of a person or other entity that cannot repay the debts it owes to creditors. In most jurisdictions, bankruptcy is imposed by a court order, often initiated by the debtor.
- The Code offers a uniform, comprehensive insolvency legislation encompassing all Co's, partnerships and individuals (other than financial firms). One of the fundamental features of the Code is that it allows creditors to assess the viability of a debtor as a business decision, and agree upon a plan for its revival or a speedy liquidation. The Code creates a new institutional framework, consisting of a regulator, insolvency professionals, information utilities and adjudicatory mechanisms, that will facilitate a formal and time bound insolvency resolution process and liquidation.

APPLICABILITY: Co's, limited liability partnerships, partnership firms, other corporate persons, and individuals, and any other body specified by Govt.

KEY FEATURES:

1) Corporate Debtors: Two-Stage Process:
To initiate an insolvency process for corporate debtors, the default should be at least **INR 1 crore.**

The Code proposes two independent stages:

a) Insolvency Resolution Process; & b) Liquidation

(a) THE INSOLVENCY RESOLUTION PROCESS (IRP):
The IRP provides a collective mechanism to lenders to deal with the overall distressed position of a corporate debtor. This is a significant departure from the existing legal framework under which the primary onus to initiate a reorganisation process lies with the debtor, and lenders may pursue distinct actions for recovery, security enforcement and debt restructuring.

The Code envisages the following steps in the IRP:

i) Commencement of the IRP: A financial creditor (for a defaulted financial debt) or an operational creditor (for an unpaid operational debt) can initiate an IRP against a corporate debtor at the National Company Law Tribunal **(NCLT).** The defaulting corporate debtor, its shareholders or employees, may also initiate voluntary insolvency proceedings.

ii) Moratorium: The NCLT orders a moratorium on the debtor's operations for the period of the IRP. This operates as a 'calm period' during which no judicial proceedings for recovery, enforcement of security interest, sale or transfer of assets, or termination of essential contracts can take place.

iii) Appointment of Resolution Professional: The NCLT appoints an insolvency professional or 'Resolution Professional' to administer the IRP. The Resolution Professional's primary function is to take over the management of the corporate borrower and operate its business as a going concern under the broad directions of a committee of creditors.

SEQUENCE OF STEPS UNDER THE IBC:

- On Day 1 of the default, a creditor or a borrower can approach **NCLT** to initiate insolvency proceedings. The NCLT has to accept or reject the plea within 14 days.
- Once the case is admitted, lenders will constitute committee of creditors (CoC), appoint an **IRP** which will run the borrowers' company in the interim period.
- **Within 180 days**, the CoC has to decide on a debt recast plan. Lenders will be given **additional 150 days (total 330 days)** to arrive at a final resolution plan.

- If the lenders agree (by voting), the CoC would go ahead with debt restructuring. **Otherwise**, after 180 days, the company's / borrower's assets will be **Liquidated.**
- **Home buyers** would be treated as financial creditors and shall have the right to be represented in the Committee of Creditors (CoC)
- **Related party'** now defined in relation to the individual as well, in addition of the Co only previously, to bar it from bidding under the IRP.
- **Vote share:** CoC to decide on extension of insolvency process beyond 180 days upto 330 days and for appointment of IP by 66% vote share (from earlier 75%); other decisions can be taken by 51% vote (75% earlier). The process can be withdrawn altogether by 90% vote share.
- **Promotors and guarantors of the MSMEs** are exempted from disqualification from bidding; it further empowers the Centre to allow further exemptions or modifications w.r.t. the MSME sector
- **Moratorium** from parallel proceedings will **not** be available to guarantors of the company. If a financial creditor or its authorised representative is a related party to the company facing insolvency, it shall not have any participation or voting during a meeting of the CoC
- A Co can file an insolvency application, provided it seeks shareholders' approval and at least 3/4 of the stakeholders approve the proposal.
- Many of changes were made on the basis of the recommendations of the IBC review committee headed by Corporate Affairs Secretary.
- Once the NCLT passes an order of liquidation, a moratorium is imposed on the pending legal proceedings against the corporate debtor, and the assets of the debtor vest in the liquidation estate.

PRIORITY OF CLAIMS:

The Code significantly changes the priority waterfall for distribution of liquidation proceeds. After the costs of insolvency resolution (including any interim finance), secured debt together with workmen dues for the preceding 24 months rank highest in priority.

Central and state Government dues stand below the claims of secured creditors, workmen dues, employee dues and other unsecured financial creditors.

Upon liquidation, a secured creditor may choose to realise his security and receive proceeds from the sale of the secured assets in first priority. If the secured creditor enforces his claims outside the liquidation, he must contribute any excess proceeds to the liquidation trust. Further, in case of any shortfall in recovery, the secured creditors will be junior to the unsecured creditors to the extent of the shortfall.

2) IRP for Individuals/Unlimited Partnerships:

For individuals and unlimited partnerships, the Code applies in all cases where the minimum default amount is INR 1,000 and above. The Code envisages two distinct processes in case of insolvencies: automatic fresh start and insolvency resolution. Under the automatic fresh start process, eligible debtors (basis gross income) can apply to the **DRT** for discharge from certain debts not exceeding a specified threshold, allowing them to start afresh. If approved, the DRT passes an order binding the debtor and creditors to the repayment plan. If the plan is rejected or fails, the debtor or creditors may apply for a bankruptcy order.

PRE-PACKAGED INSOLVENCY RESOLUTION PROCESS (PIRP)

➢ The Lok Sabha on July 28, 2021 passed the Insolvency and Bankruptcy Code (Amendment) Bill 2021, replacing the Insolvency and Bankruptcy Code (Amendment) Ordinance, 2021.

➢ The Ordinance introduces an alternate insolvency resolution process for micro, small, and medium enterprises (MSMEs), called the Pre-packaged Insolvency Resolution Process (PIRP).

➢ Unlike Corporate Insolvency Resolution Process (CIRP), PIRP may be initiated only by debtors. Under this framework, a debtor initiates and participates in the resolution proceedings with lenders through an informal process. Once the promoters of the company and the secured creditors agree on a resolution plan, they can approach the National Company Law Tribunal for approval. During PIRP, the management of the company will remain with the debtor.

CUT OFF LIMIT:

According to the amendments, the government has notified a threshold for default of **at least ten lakh rupees.** The central government may increase the threshold of minimum default up to one crore rupees through a notification.

DEBTORS ELIGIBLE FOR PIRP: PIRP may be initiated in the event of a default by a corporate debtor classified as an MSME under the MSME Development Act, 2006. For initiating PIRP, the corporate debtor himself is required to apply to the adjudicating authority (National Company Law Tribunal). The authority must approve or reject the application for PIRP within 14 days of its receipt.

APPROVAL OF FINANCIAL CREDITORS:

➢ For applying for PIRP, the debtor needs to obtain **approval of at least 66% of its financial creditors** (in value of debt due to creditors) who are not related parties of the debtor. Before seeking approval, the debtor must provide creditors with a base resolution plan. The debtor must also propose the name of the RP along with the application for PIRP. **The proposed RP must be approved by at least 66% of the financial creditors.**

PROCEEDINGS UNDER PIRP:

➢ The debtor will submit the base resolution plan to the RP **within two days of the commencement** of the PIRP. **A committee of creditors will be constituted within seven days of the PIRP** commencement date, which will consider the base resolution plan. The committee may provide the debtor with an opportunity to revise the plan. The RP may also invite resolution plans from other persons.

➢ Alternative resolution plans may be invited if the base plan: **(i)** is not approved by the committee, or **(ii)** is unable to pay the debt of operational creditors (claims related to the provision of goods and services).

INITIATION OF CIRP: At any time from the PIRP commencement date but before the approval of the resolution plan, the committee of creditors may decide **to terminate PIRP and instead initiate CIRP in respect of the debtor (by a vote of at least 66% of the voting shares).**

➢ A resolution plan must be approved by the committee by a vote of at least 66% of the voting shares. A **resolution plan must be approved by the committee within 90 days** from the commencement date of PIRP. The resolution plan approved by the committee will be examined by the adjudicating authority.

➢ If no resolution plan is approved by the committee, the RP may apply for termination of PIRP. **The authority must either approve the plan or order termination of PIRP within 30 days of receipt.** Termination of PIRP will result in the liquidation of the corporate debtor.

COMPARISON BETWEEN PPIRP AND CIRP

Criteria	PPIRP	CIRP
Eligibility	Only MSMEs	All Corporate debtors
Threshold	Minimum INR 10 Lac	Minimum INR 1 crore
Initiation by	Only CD, post approval by shareholders and unrelated FCs	FCs / OCs / CD
Timeline	90 days to submit resolution plan to Adjudication Authority (AA), 120 days for entire process. No extension.	180 days extendable up to maximum of 330 days
Management Control	Corporate debtor-in-possession with creditor-in-control	Creditor in control
Resolution plan	CD to submit a base resolution plan. If COC rejects, or if OCs not paid in full, competing bids can be invited.	Expression of Interest is invited from all prospective resolution applicants.
Section 29 A	Section 29-A applicable	Section 29-A applicable
Consequence of failure	Termination of PPIRP, or liquidation or initiation of CIRP	Liquidation
Moratorium	Moratorium from date of commencement	Moratorium protection from the date of filing of the plea
Termination	Can terminate the process with min 66% votes of CoC	Section 12-A to withdraw from CIRP with 90% vote of COC
Miscellenous	If promoters not diluting equity as part of the resolution, COC needs to record reasons for it. PPIRP cannot run in parallel to CIRP. 3-year cool-off period from any other PPIRP or CIRP.	

LIMITED LIABILITY PARTNERSHIP (LLP)

● LLP is a hybrid corporate form entity, combining the features of existing partnership firms and limited liability companies. LLP is a body corporate & legal entity separate from its partners. It has to suffix Limited Liability Partnership or LLP' with its name.

IMPORTANT ASPECTS:

● Two or more persons can form a LLP. No upper limit on the number of partners in an LLP.

● A body corporate (including a LLP) can be a partner in LLP.

● Liability of partners restricted upto amount agreed to be contributed by the partners.

● Conversion of a partnership firm or a private limited company or an unlisted public company into LLP is allowed.

● Minor and HUF cannot be partners. LLP to be registered with ROC. No provision under LLP act for registration of charges with ROC. There must be a minimum of two designated partners. At least one designated partner must be a resident of India. No requirement of minimum capital contribution.

RESOLUTION OF STRESSED ASSETS

(PRUDENTIAL FRAMEWORK)

- In view of the enactment of the Insolvency and Bankruptcy Code, 2016 (IBC), RBI has on 7-6-2019 substituted the existing guidelines with a harmonised & simplified generic framework for resolution of stressed assets.
- The extant instructions on resolution of stressed assets such as Framework for Revitalising Distressed Assets, Corporate Debt Restructuring Scheme, Flexible Structuring of Existing Long Term Project Loans, Strategic Debt Restructuring Scheme (SDR), Change in Ownership outside SDR, and Scheme for Sustainable Structuring of Stressed Assets stand withdrawn with immediate effect. Accordingly, the JLF as mandatory institutional mechanism for resolution of stressed accounts also stands discontinued.
- The lenders shall not reverse the provisions maintained as on April 2, 2019 in respect of any borrower unless the reversal is a consequence of an asset classification upgrade or recovery or resolution following these guidelines. Any RP under consideration as on 7th June, 2019 may be pursued by lenders under this revised framework subject to meeting the requirements/conditions specified in this framework.
- **APPLICABILITY**: The directions are issued in terms of the provisions of Section 35AA of the Banking Regulation Act, 1949, for initiation of insolvency proceedings against specific borrowers under the Insolvency and Bankruptcy Code, 2016 (IBC).

The Guidelines apply to Scheduled Commercial Banks (excluding RRBs); All India Term Financial Institutions (NABARD, NHB, EXIM Bank, and SIDBI); Small Finance Banks; and, Systemically Important Non-Deposit taking Non-Banking Financial Companies (NBFC-ND-SI) and Deposit taking Non-Banking Financial Companies (NBFC-D).

OBJECTIVES: For providing a framework for early recognition, reporting and time bound resolution of stressed assets.

I) FRAMEWORK FOR RESOLUTION OF STRESSED ASSETS:

A) EARLY IDENTIFICATION AND REPORTING OF STRESS:

- Lenders shall recognise incipient stress in loan accounts, immediately on default, by classifying such assets as special mention accounts (SMA) as per the following categories:

SMA Sub-categories	Basis for Classification Principal or interest payment or any other amount wholly or partly overdue between
SMA-0	1-30 days
SMA-1	31-60 days
SMA-2	61-90 days

- In the case of **revolving credit facilities like cash credit**, the SMA sub-categories will be as follows:

SMA Sub-categories	Basis for Classification Outstanding balance remains continuously in excess of the sanctioned limit or DP, whichever is lower, for a period of
SMA-1	31-60 days
SMA-2	61-90 days

Banks shall report credit information, including classification of an account as SMA to Central Repository of Information on Large Credits (CRILC), on all borrowers having aggregate exposure of Rs. 50 million (Rs. 5 crore) and above with them. The CRILC-Main Report shall be submitted on a monthly basis. In addition, the lenders shall submit a weekly report of instances of default by all borrowers (with aggregate exposure of Rs. 50 million and above) by close of business on every Friday, or the preceding working day if Friday happens to be a holiday.

B) IMPLEMENTATION OF RESOLUTION PLAN (RP): All lenders must put in place Board-approved policies for resolution of stressed assets, including the timelines for resolution. Since default with any lender is a lagging indicator of financial stress faced by the borrower, the banks should initiate the process of implementing a resolution plan (RP) even before a default.

- **Review Period:** Once a borrower is reported to be in default by any of the lenders, they should undertake a prima facie review of the borrower account within 30 days from such default ("**Review Period**"). During this Review Period of 30 days, lenders may decide on the resolution strategy, including the nature of the RP, the approach for implementation, etc. The lenders may also choose to initiate legal proceedings for insolvency or recovery.
- **Inter-Creditor Agreement (ICA):**

a) In cases where RP is to be implemented, all lenders shall enter into an inter-creditor agreement (ICA), during the above-said Review Period, to provide for ground rules for finalisation and implementation of the RP in respect of borrowers with credit facilities from more than one lender.

b) The ICA shall provide that any decision agreed by lenders representing 75% by value of total outstanding credit facilities (fund based as well non-fund based) and 60% of lenders by number shall be binding upon all the lenders.

c) The ICA may, provide for rights and duties of majority lenders, duties and protection of rights of dissenting lenders, treatment of lenders with priority in cash flows, security interest, etc. In particular, the RPs shall provide for payment not less than the liquidation value due to the dissenting lenders.

- **'Reference Date':** In respect of accounts with aggregate exposure above a threshold with the lenders, on or after the 'reference date', RP shall be implemented within 180 days from the end of Review Period. The Review Period shall commence not later than the reference date, if in default as on the reference date; or the date of first default after the reference date.

The Reference dates for the above purpose shall be as under:

AGGREGATE EXPOSURE OF THE BORROWER TO LENDERS	REFERENCE DATE
Rs. 20 billion and above	**June 7, 2019**
Rs. 15 billion and above, but less than Rs. 20 billion	**January 1, 2020**
Less than Rs. 15 billion	**To be announced in due course**

The RP may involve any action but not limited to, regularisation of the account by payment of all overdues by the borrower entity, sale of the exposures to other entities / investors, change in ownership and restructuring.

C) IMPLEMENTATION CONDITIONS FOR RP:

- RPs involving restructuring / change in ownership in respect of accounts where the aggregate exposure of lenders is **Rs. 1 billion and above**, shall require independent credit evaluation (ICE) of the residual debt by credit rating agencies specifically authorised by the RBI for this purpose.
- While accounts with aggregate exposure of **Rs. 5 billion and above** shall require two such ICEs, others shall require one ICE.
- Only such RPs which receive a credit opinion of RP4 or better for the residual debt from one or two CRAs, as the case may be, shall be considered for implementation.

Further, ICEs shall be subject to the following:

The CRAs shall be directly engaged by the lenders and the payment of fee for such assignments shall be made by the lenders. If lenders obtain ICE from more than the required number of CRAs, all such ICE opinions shall be RP4 or better for the RP to be considered for implementation.

In respect of borrowers to whom the lenders continue to have credit exposure, shall be deemed to be 'implemented' only if the following conditions are met:

a) A RP which **does not involve** restructuring / change in ownership shall be deemed to be implemented only if the borrower is not in default with any of the lenders as on 180th day from the end of the Review Period. Any subsequent default after the 180 day period shall be treated as a fresh default, triggering a fresh review.

b) A RP which **involves** restructuring / change in ownership shall be deemed to be implemented only if all of the following conditions are met:

- All related documentation, including execution of necessary agreements between lenders and borrower / creation of security charge / perfection of securities, are completed by the lenders concerned in consonance with the RP being implemented;
- The new capital structure and / or changes in the terms of conditions of the existing loans get duly reflected in the books of all the lenders and the borrower; and,
- Borrower is not in default with any of the lenders.

c) A RP which **involves lenders exiting** the exposure by assigning the exposures to third party or a RP involving recovery action shall be deemed to be implemented only if the exposure to the borrower is fully extinguished.

D) DELAYED IMPLEMENTATION OF RESOLUTION PLAN:

Timeline for implementation of viable Resolution Plan	Additional provisions to be made as a % of total outstanding, if RP not implemented within the timeline.
180 days from the end of Review Period	20%
365 days from the commencement of Review Period	15% (i.e. total additional provisioning of 35%)

The additional provisions shall be made over and above the higher of the following, subject to the total provisions held being capped at 100% of total outstanding: **a)**The provisions already held; or **b)** The provisions required to be made by all the lenders with exposure as per the asset classification status of the borrower account.

● **Reversal of Additional Provisions:**

The above additional provisions may be reversed as under:

a) Where the RP involves only payment of overdues by the borrower, the additional provisions may be reversed only if the borrower is not in default for a period of 6 months from the date of clearing of the overdues with all the lenders;

b) Where RP involves restructuring / change in ownership outside IBC, the additional provisions may be reversed upon implementation of the RP;

c) Where resolution is pursued under IBC, half of the additional provisions made may be reversed on filing of insolvency application and the remaining additional provisions may be reversed upon admission of the borrower into the insolvency resolution process under IBC; **or,**

d) Where assignment of debt/recovery proceedings are initiated, the additional provisions may be reversed upon completion of the assignment of debt / recovery.

E) NORMS APPLICABLE TO RESTRUCTURING / CHANGE IN OWNERSHIP UNDER IBC FRAMEWORK OR OUTSIDE THE IBC:

➢ Restructuring is an act in which a lender, for economic or legal reasons relating to the borrower's financial difficulty, grants concessions to the borrower.

➢ Restructuring may involve modification of terms of the advances / securities, which would generally include, among others, alteration of payment period / payable amount / the amount of installments / rate of interest; rollover of credit facilities; sanction of additional facility/ release of additional funds for an account in default to aid curing of default / enhancement of existing credit limits; compromise settlements where time for payment of settlement amount exceeds three months.

In order to enable lenders to frame respective policies for determination of financial difficultly, RBI has provided non-exhaustive indicative list of signs of financial difficulties:

a) A default, as per the definition provided in the framework, shall be treated as an indicator for financial difficulty, irrespective of reasons for the default.

b) A borrower not in default, but it is probable that the borrower will default on any of its exposures in the foreseeable future without the concession, for instance, when there has been a pattern of delinquency in payments on its exposures.

c) A borrower's outstanding securities have been delisted, are in the process of being delisted, or are under threat of being delisted from an exchange due to noncompliance with the listing requirements or for financial reasons.

d) On the basis of actual performance, estimates and projections that encompass the borrower's current level of operations, the borrower's cash flows are assessed to be insufficient to service all of its loans or debt securities (both interest and principal) in accordance with the contractual terms of the existing agreement for the foreseeable future.

e) A borrower's credit facilities are in non-performing status or would be categorised as nonperforming without the concessions.

f) A borrower's existing exposures are categorised as exposures that have already evidenced difficulty in the borrower's ability to repay in accordance with the bank's internal credit rating system.

1) PRUDENTIAL NORMS:

A) Asset Classification:

In case of restructuring, the accounts classified as 'standard' shall be immediately downgraded as non-performing assets (NPAs), i.e., 'sub-standard' to begin with.

- The NPAs, upon restructuring, would continue to have the same asset classification as prior to restructuring.
- In both cases, the asset classification shall continue to be governed by the ageing criteria as per extant asset classification norms.

B) Conditions for Upgrade:

- Standard accounts classified as NPA and NPA accounts retained in the same category on restructuring by the lenders may be upgraded only when all the outstanding loan / facilities in the account demonstrate 'satisfactory performance during the period from the date of implementation of RP up to the date by which at least 10 per cent of the sum of outstanding principal debt as per the RP and interest capitalisation sanctioned as part of the restructuring, if any, is repaid (**'monitoring period'**).
- The account cannot be upgraded before one year from the commencement of the first payment of interest or principal (whichever is later) on the credit facility with longest period of moratorium under the terms of RP.
- Additionally, for **accounts where the aggregate exposure of lenders is Rs. 1 billion and above** at the time of implementation of RP, to qualify for an upgrade, in addition to demonstration of satisfactory performance, the credit facilities of the borrower shall also be rated as investment grade (BBB- or better), at the time of upgrade, by CRAs accredited by the RBI for the purpose of bank loan ratings.
- While **accounts with aggregate exposure of Rs. 5 billion and above** shall require two ratings, those below Rs. 5 billion shall require one rating. If the ratings are obtained from more than the required number of CRAs, all such ratings shall be investment grade for the account to qualify for an upgrade.
- If the borrower fails to demonstrate satisfactory performance during the monitoring period, asset classification upgrade shall be subject to implementation of a fresh restructuring/ change in ownership under this Framework or under IBC.
- Lenders shall make an additional provision of 15% for such accounts at the end of the Review Period. This additional provision, along with other additional provisions, may be reversed as per the norms specified above.
- Provisions held on restructured assets may be reversed when the accounts are upgraded to standard category.
- Any default by the borrower in any of the credit facilities with any of the lenders (including any lender where the borrower is not in **"specified period"**) subsequent to upgrade in asset classification as above but before the end of the specified period, will require a fresh RP to be implemented within the above timelines as any default would entail. However, lenders shall make an additional provision of 15% for such accounts at the end of the Review Period.
- Specified period" means the period from the date of implementation of RP up to the date by which at least 20% of the sum of outstanding principal debt as per the RP and interest capitalisation sanctioned as part of the restructuring, if any, is repaid.

Income Recognition Norms: Interest income in respect of restructured accounts classified as 'standard assets' may be recognized on accrual basis and that in respect of the restructured accounts classified as 'non-performing assets' shall be recognised on cash basis.

➢ In the case of additional finance in accounts where the pre-restructuring facilities were classified as NPA, the interest income shall be recognised only on cash basis except when the restructuring is accompanied by a change in ownership.

CASES OF FRAUDS/WILFUL DEFAULTERS: Borrowers who have committed frauds / malfeasance / wilful default will remain ineligible for restructuring. However, in cases where the existing promoters are replaced by new promoters, and the borrower company is totally delinked from such erstwhile promoters/management, Banks may take a view on restructuring such accounts based on their viability.

SYMBOLS	ICE SYMBOLS DEFINITION
RP1	Debt facilities/instruments with this symbol are considered to have the highest degree of safety regarding timely servicing of financial obligations. Such debt facilities/instruments carry lowest credit risk.
RP2	Debt facilities/instruments with this symbol are considered to have high degree of safety regarding timely servicing of financial obligations. Such debt facilities/instruments carry very low credit risk.
RP3	Debt facilities/instruments with this symbol are considered to have adequate degree of safety regarding timely servicing of financial obligations. Such debt facilities/instruments carry low credit risk.
RP4	Debt facilities/instruments with this symbol are considered to have moderate degree of safety regarding timely servicing of financial obligations. Such debt facilities/instruments carry moderate credit risk.
RP5	Debt facilities/instruments with this symbol are considered to have moderate risk of default regarding timely servicing of financial obligations.
RP6	Debt facilities/instruments with this symbol are considered to have high risk of default regarding timely servicing of financial obligations.
RP7	Debt facilities/instruments with this symbol are considered to have very high risk of default regarding timely servicing of financial obligations.

DELAYED COLLECTION OF OUTSTATION CHEQUES

- **Metro and State Capital:** 7 days **Distt. Head Qtrs:** 10 days
- **Other Areas:** 14 days
- **Penalty on account of Delay:** SB / CA a/c upto 90 days @ SB rate + 2% be given.
- **Beyond 90 days:** Rate for the corresponding period of FDR.
- **CC / OD:** Rate charged by the bank in the a/c will be paid as penalty.

Minimum payment Rs.5.

SERVICE CHARGES

(A) SERVICE (PROCESSING) CHARGES for local Clearing

	Presenting Bank	Drawee Bank
(i) Clearing at MICR – CPCs	Rs.1.00	Rs.1.50
(ii) Cheque Truncation	Rs. 0.50	Rs.1.00

(B) SERVICE CHARGES FOR OUTSTATION CHEQUE COLLECTION:

Up to and including 5,000	: Rs. 25.
Above 5,000 & up to and including 10,000	: Rs. 50
Above 10,000 & up to and including 1 lac	: Rs. 100,
Above 1 lac	: Banks Discretion

(C) SERVICE CHARGES FOR CHEQUE COLLECTION UNDER SPEED CLEARING (BY COLLECTING BANKS FROM CUSTOMERS):

Up to and including 1,00,000	: Nil,
Above 1,00,000	: Bank's Discretion

NON COMPLIANCE OF TAX RELATED MATTERS

- If a person fails to furnish return of Income: Penalty of Rs.5,000.
- Delay in filing TDS return: Rs.200/- per day and interest @1.5% per month or part thereof.
- Penalty for furnishing incorrect information in e-TDS return: Rs. 10,000 (minimum) to Rs. 1,00,000 (maximum)
- Non compliance of Provision of PAN : Rs.10,000/- penalty.or failure to file quarterly 26QAA return within due date, a penalty of Rs.100 for every day during which the failure continues will be levied.
- Obtaining/possessing more than one PAN is against the law and may attract a penalty upto Rs.10,000/-

OTHER IMPORTANT ASPECTS

- **Inoperative / Dormant:** A Saving Bank as well as Current Account should be treated as inoperative / dormant if there are no transactions in the account for over a period of two years.
- Branch level customer service committees meet at least once in a month i.e. 10th of every month.
- If the cheque has to be returned for any reason it has to be enclosed with cheque return memo as per RBI clearing house rules.
- Maximum award by Ombudsman in case of credit card Rs. 1 lac.
- Interest rate on term deposits is decided by ALCO committee.
- W.e.f. 1-4-2010, interest on Savings bank is payable on daily product basis but credited on quarterly basis.
- Star series notes: Replacement of defective printed notes, presently issued in the denomination of Rs. 10, 20, 50, 100, 200, 500 & 2000.
- The cash kept in the currency chest is the property of RBI and bank is an agent of RBI for the same. Minimum withdrawal or deposit in currency chest can be for Rs.1,00,000 and in multiples of Rs. 50,000/-
- All cross-border wire transfers of the value of more than five lakh rupees or its equivalent in foreign currency where either the origin or destination of fund is in India needs to be reported by the 15th of the succeeding month to FIU-IND.
- Creation of DEAF fund is based on Section 26-A of Banking Regulation Act 1949.
- PSBs should provide doorstep Banking facility for senior citizens aged 70 years and above.

IMPORTANT COMMITTEES

HEADED BY	SUBJECT	HEADED BY	SUBJECT
M.N. Goiporia	Customer Service in Banks	J.V. Shetty	Consortium Finance
Ghosh	Frauds and mal-practices in Banks, Con-current Audit	Rashid Jilani	Revised method of lending in place of Cash Credit System
C. S. Murthy	New PS Guidelines released in April 2007	Ms. I.T. Vaz	Norms for Bk lending for WC – (for Trade)
Jankiraman	Irregularities in Securities transactions	W.S. Saraf	Technology Issues in the banking Industry
S.K. Kalia	Non Govt. Organizations and Self Help Groups	O.P. Sodhani	Committee on Foreign Exchange Markets
Kalyana Sundram	Factoring Services in India	L.C. Gupta	On Derivatives – 1997
Dr. C. Rangarajan	Mechanisation & Computeri-zation in Banks. Estimation of Savings & Investment	P.R. Nayak	Institutional Credit to SSI (Annual Projected Turnover Method)
M. Vaghul	Money Markets Reforms	Goswami	Industrial Sickness
Narasimham	Financial Sector Reforms	Y.B. Damle	MICR Technology
K.S. Shere	Electronic Fund Transfer	Dr. P.D. Ojha	Rural lending & SAA
S.S. Tarapore	CAC, Narrow Banking Recommendations	M.S. Verma	Weak Banks Classification
R.N. Malhotra	Insurance Sector Reforms	Zarir Cama	Electronic Money
Y. V. Reddy	Rationalisation of interest rates on small savings	S.S. Kohli	Definition of Sick SSI units & Wilful defaulters
Basel	Capital Adequacy Norms	R.K. Talwar	Customer Service
Y. V. Reddy	Modified Liquidity & Monetary Aggregates	R.H. Khan	Universal Bank Recommendations
Rakesh Mohan	Infrastructure Finance	P.L. Tandon	Follow up of Bank Credit
S.L. Kapoor	CGTMSE, Credit Delivery System for SSI	K.B. Chore	Implementation of 2nd method of lending
R.V. Gupta	Credit Delivery System for Agriculture - 1998	Padmanaban	Camels Rating
K. Manglam Birla	Corporate Governance	Dr.N.L. Mitra	KYC Guidelines
R. J. Kamath	Revised Education Loan Scheme	Dr. N.L. Mitra	Legal Aspects of Bank Frauds - 2001.
Y.H. Malegam	Corporate Positioning – Restructuring of UTI	V.S. Vyas	Rural / Agriculture Credit
Dr. A.S. Ganguly	SSI and SME Financing	Malhotra Committee	Insurance Sector Reforms
B P Kanungo	Review of Customer Service Standards	NK Singh	FRBM Review

DISTANCE EDU MODULES

Keeping in view request of fairly large number of staff members of different banks who are not in a position to attend the regular training program, CTDI has started DISTANCE EDU MODULES (Correspondence Course) with the objective of providing exam oriented inputs through off-site training for various bank exams.

BANK PROMOTION MODULE

- Study Kit I - Banking Law & Practice questions with answer
- Study Kit II - Loans & Advances including Priority Sector & Balance Sheet Analysis.
- Banking Capsule, Self learning Mock Test CD link covering 1000 MCQ,s.
- Recollected Questions Capsule covering previous recollected Q's.
- Six months Monthly magzines.

COST OF PACK: Rs.2,700/- (inclusive of speed post charges). The amount may be remitted on-line in CTDI's Current Account NO : 7718002100000011. IFSC CODE : PUNB0771800, BANK NAME : PNB, SEC. 47, CHANDIGARH.

DESPATCH: Entire material will be sent through Speed post on receipt of the amount.

HIGHLIGHTS:
- Study kits contain descriptive inputs along with objective / multiple choice questions to reinforce the learning process.
- Recollected questions from previous examinations included.
- Facility of Password to access special exam oriented inputs on our website.

INCENTIVE SCHEME: Participants will get a concession of Rs.1,000 in fee if they attend our on line class module.

JAIIB / CAIIB MODULE

Module covers full syllabus of all the subjects of JAIIB / CAIIB. In addition to basic text book, it contains special objective type text booklets and study kits for each paper.

JAIIB	CAIIB
Principles & Practices of Banking	Advanced Bank Management
Accounting & Finance for Bankers	Bank Financial Management
Indian Economy & Indian Financial System	Advance Business & Financial Management
Retail Banking	Banking Regulations and Business Laws
	Rural Banking

COST OF STUDY MATERIAL: Rs.800/- per subject for JAIIB and Rs. 900/- per subject for CAIIB (inclusive of Speed post charges). The study material will comprise of one Descriptive book and one MCQ's book /workbook for CAIIB covering case studies.

The amount may be remitted on-line in CTDI's Current Account No: 7718002100000011. IFSC CODE : PUNB0771800, BANK NAME : PNB, SEC. 47, CHANDIGARH.

DESPATCH: Entire material will be sent through Speed post on receipt of the amount.

CTDI PUBLICATIONS

- **CONTEMPORARY BANKING & FINANCE : (MONTHLY MAGAZINE)**
  Subscription Online Magazine Rate Rs.500/850/1200 for One/Two/Three years.
  For Hard Copy: The hard copy will be send thru Regd. Post. Cost of one year magazine subscription is Rs.750/- + Rs.350/- on account of Regd. post charges. Total amount Rs.1,100/-
  - A Monthly Journal to keep your banking knowledge up to date.
  - Designed especially for Bankers undertaking promotion tests / Interviews - career advancement.
  - Inputs on Banking, Forex, Advances, Priority Sector, Financial Sector, Infotech, HRD, Legal Case Study and latest Banking and Financial News.
  - Includes Rationales, Problems on Banking, Recollected Q's of various Bank exams.
  - Broad coverage of General Knowledge related to Economy, Banking & Finance.
  - Brain Storming Questions to test the knowledge and sharpen the skills.
- **BANKER'S BRIEFCASE:** Book designed to update the knowledge and sharpen the skills for facing interview confidently. A comprehensive masterpiece developed to cover all important topics required to update you for all promotion interviews. A must have book to ensure your success in interview. (Price Rs. 800/- + 150/- Speed Post Charges). UNDER PRINT.
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- **JAIIB / CAIIB BOOKS:** Based on new syllabus prescribed by IIBF Mumbai – All subjects with Objective Type Tests.
- **ADVANCED BANK MANAGEMENT WORKBOOK:** Contains Numerical / Case Studies based on Recollected Q's with solutions step wise. (Price Rs.600/-+100/- Speed Post Charges).
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