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BANKING - LAW & PRACTICE

MODULE 3

ELECTIVE PAPER 9.1

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Lesson 1- Overview of Indian Banking System

Registration of Factors (Reserve Bank) Regulations, 2022 (Notification No. DOR.FIN.080/CGM(JPS) – 2022 dated January 14, 2022)

The Reserve Bank of India has issued regulations pertaining to the manner of granting Certificate of Registration to companies which propose to do factoring business. Every company seeking registration as NBFC-Factor shall have a minimum Net Owned Fund (NOF) of ₹5 crore, or as specified by the Reserve Bank from time to time. An NBFC-Factor shall ensure that its financial assets in the factoring business constitute at least fifty per cent of its total assets and its income derived from factoring business is not less than fifty per cent of its gross income.

For more details: <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12223&Mode=0>

Implementation of ‘Core Financial Services Solution’ by Non-Banking Financial Companies (NBFCs) (Notification no. RBI/2021-22/175DoS.CO.PPG.SEC/10/11.01.005/2021-22 dated February 23, 2022)

Reserve Bank of India (RBI) has asked certain class of Non-Banking Financial Companies (NBFC) to mandatorily implement ‘Core Financial Services Solution (CFSS)’ by September 30, 2025 in order to provide seamless customer interface as well as have a centralised data base. In a circular, RBI said it has been decided that NBFCs – Middle Layer and NBFCs – Upper Layer with 10 and more ‘fixed point service delivery units’ as on October 01, 2022 shall be mandatorily required to implement CFSS.

For more details: <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12247&Mode=0>

Lesson 2 - Regulatory Framework of Banks

Regulations Review Authority (RRA 2.0) - Interim Recommendations- Second tranche move (Notification no. RBI/2021-2022/170CO.DSIM.SMD.No.S482/05-06-004/2021-22 dated February 18, 2022)

The Reserve Bank of India has set up a Regulations Review Authority (RRA 2.0) with an objective to reduce the compliance burden on Regulated Entities (REs). RRA had recommended withdrawal of 150 circulars in the first tranche of recommendations. In continuation of the exercise, RRA has now recommended withdrawal of additional 100 circulars in the second tranche of recommendations. The RRA has recommended elimination of paper-based returns and has identified 65 regulatory returns which would either be discontinued/ merged with other returns or would be converted into online returns. The RRA has also recommended creation of a separate web page “Regulatory Reporting” in the RBI website to consolidate information relating to regulatory reporting and return submission by the regulated entities at a single source. These recommendations are expected to ease regulatory compliance for the regulated entities while improving the accuracy, speed and quality of data submission.

For more details: https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=53293

Liquidity Adjustment Facility- Change in rates (Notification no. RBI/2022-23/42 FMOD.MAOG.No.144/01.01.001/2022-23 dated May 04, 2022)

It has been decided by the Monetary Policy Committee (MPC) to increase the policy Repo rate under the Liquidity Adjustment Facility (LAF) by 40 basis points from 4.00 per cent to 4.40 per cent with immediate effect. Consequently, the Standing Deposit Facility (SDF) rate and Marginal Standing Facility (MSF) rate stand adjusted from 3.75 per cent to 4.15 per cent and from 4.25 per cent to 4.65 per cent respectively, with immediate effect.

For more details: <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12309&Mode=0>

Maintenance of Cash Reserve Ratio (CRR) (Notification no. RBI/2022-23/46DOR.RET.REC.33/12.01.001/2022-23 dated May 04, 2022)

It has been decided to increase the Cash Reserve Ratio (CRR) of all banks by 50 basis points from 4.00 percent to 4.50 percent of their Net Demand and Time Liabilities (NDTL), effective from the reporting fortnight beginning May 21, 2022.

For more details: <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12313&Mode=0>

Lesson 4 - Regulation of Banking Business

RBI releases Framework for Facilitating Small Value Digital Payments in Offline Mode (Notification no. RBI/2021-22/146CO.DPSS.POLC.No.S1264/02-14-003/2021-2022 dated January 03, 2022)

The Reserve Bank has placed on its website the 'Framework for facilitating small value digital payments in offline mode'. The framework incorporates the feedback received from the pilot experiments on offline transactions conducted in different parts of the country during the period from September 2020 to June 2021. Offline mode of payment can be enabled only after obtaining specific consent of the customer. Customers shall enjoy protection under the provisions of circulars limiting customer liability issued by Reserve Bank (as amended from time to time). Customers also have recourse to the Reserve Bank – Integrated Ombudsman Scheme for grievance redress. Offline transactions are expected to give a push to digital transactions in areas with poor or weak internet or telecom connectivity, particularly in semi-urban and rural areas. The new framework is applicable with immediate effect.

For more details: https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=53038

Interoperable Card-less Cash Withdrawal (ICCW) at ATMs (Notification no. RBI/2022-23/54 CO.DPSS.POLC.No.S-227/02-10-002/2022-23 dated May 19, 2022)

All banks, ATM networks and White Label ATM Operators (WLAOs) may provide the option of ICCW at their ATMs. NPCI has been advised to facilitate Unified Payments Interface (UPI) integration with all banks and ATM networks. While UPI would be used for customer authorisation in such transactions, settlement would be through the National Financial Switch (NFS) / ATM networks. The on-us / off-us ICCW transactions shall be processed without levy of any charges other than those prescribed under the circular on Interchange Fee and Customer Charges. Withdrawal limits for ICCW transactions shall be in-line with the limits for regular on-us / off-us ATM withdrawals. All other instructions related to Harmonisation of Turn Around Time (TAT) and customer compensation for failed transactions shall continue to be applicable.

For more details: <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12321&Mode=0>

Processing of e-mandates for recurring transactions (Notification no. RBI/2022-23/73CO.DPSS.POLC.No.S-518/02.14.003/2022-23 dated June 16, 2022)

The e-mandate framework prescribed an Additional Factor of Authentication (AFA), inter alia, while processing the first transaction in case of e-mandates / standing instructions on cards, prepaid payment instruments and Unified Payments Interface. For subsequent transactions with transaction values up to ₹5,000/- (AFA limit), prescription of AFA was waived. On a review of implementation of the e-mandate framework and the protection available to customers, it has been decided to increase the aforesaid AFA limit from ₹5,000/- to ₹15,000/- per transaction.

For more details: <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12341&Mode=0>

Lesson 12 - Loans and Advances

Housing Finance – Loans for repairs/additions/alterations - Enhancement of limits (Notification no. RBI/2022-23/56 DOR.CRE.REC.18/09.22.010/2022-23 dated May 24, 2022)

The ceiling on loans to individuals for carrying out repairs/additions/alterations to their dwelling units was Rs.2 lakh in rural and semi-urban areas and Rs.5 lakh in urban areas. The ceiling on such loans is now revised to Rs.10 lakh in metropolitan centres (those centres with population of 10 lakh and above) and Rs.6 lakh in other centres.

For more details: <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12323&Mode=0>

Individual Housing loans – Enhancement in limits (Notification no. RBI/2022-23/68DOR.CRE.REC.42/09.22.010/2022-23 dated June 08, 2022)

It has been decided to revise the limits on individual housing loans sanctioned by urban co-operative banks to an individual borrower as under:

Category of the bank	Existing Limit* (per individual borrower)	Revised Limit* (per individual borrower)
(a) Tier-I UCBs	₹30 lakh	₹60 lakh
(b) Tier-II UCBs	₹70 lakh	₹140 lakh
*subject to prescribed prudential exposure limits		

For more details: <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12336&Mode=0>

Lesson 18 - Non-Performing Assets

Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances – Clarifications (Notification no. RBI/2021-2022/158 DOR.STR.REC.85/21.04.048/2021-22 dated February 15, 2022)

The Reserve Bank of India has received several queries received seeking certain clarifications related to Prudential norms on Income Recognition, Asset Classification and Provisioning, it is advised as under:

- i. The definition of ‘out of order’, as clarified in the Circular, shall be applicable to all loan products being offered as an overdraft facility, including those not meant for business purposes and/or which entail interest repayments as the only credits.
- ii. The ‘previous 90 days period’ for determination of ‘out of order’ status of a CC/OD account shall be inclusive of the day for which the day-end process is being run.
- iii. In case of borrowers having more than one credit facility from a lending institution, loan accounts shall be upgraded from NPA to standard asset category only upon repayment of entire arrears of interest and principal pertaining to all the credit facilities.
- iv. The circular does not make any changes to the requirements related to reporting of information to CRILC, which will continue to be governed in terms of extant instructions for respective entities¹.

The circular does not, in any way, interfere with the extant guidelines on implementation of Ind-AS by NBFCs.

For more details: <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12230&Mode=0>

Lesson 19 - Final Accounts of Banking Companies

Reserve Bank of India (Financial Statements - Presentation and Disclosures) Directions, 2021 - Reporting of reverse repos with Reserve Bank on the bank's balance sheet (Notification no. RBI/2022-23/55 DOR.ACC.REC.No.37/21.04.018/2022-23 dated May 19, 2022)

In order to bring more clarity on the presentation of reverse repo on the balance sheet, it has now been decided as under:

- (a) All type of reverse repos with the Reserve Bank including those under Liquidity Adjustment Facility shall be presented under sub-item (ii) 'In Other Accounts' of item (II) 'Balances with Reserve Bank of India' under Schedule 6 'Cash and balances with Reserve Bank of India'.
- (b) Reverse repos with banks and other institutions having original tenors up to and inclusive of 14 days shall be classified under item (ii) 'Money at call and short notice' under Schedule 7 'Balances with banks and money at call and short notice'.
- (c) Reverse repos with banks and other institutions having original tenors more than 14 days shall be classified under Schedule 9 – 'Advances' under the following heads:
 - i. A.(ii) 'Cash credits, overdrafts and loans repayable on demand'
 - ii. B.(i) 'Secured by tangible assets'
 - iii. C.(I).(iii) Banks (iv) 'Others' (as the case may be)

For more details: <https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12322&Mode=0>