

PROFESSIONAL PROGRAMME

UPDATES FOR BANKING LAW & PRACTICE

**(Relevant for students appearing in December, 2018
examination)**

MODULE 3-PAPER 9.1

Disclaimer-

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Students appearing in December 2018 Examination shall note the following:

Students are also required to update themselves on all the relevant Notifications, Circulars, Clarifications, etc. issued by the RBI on or before six months prior to the date of the examination.

These Updates are to facilitate the students to acquaint themselves with the amendments in Banking Laws upto June, 2018, applicable for December, 2018 Examination. The students are advised to read their Study Material along with these Updates.

In the event of any doubt, students may write to the Institute for clarifications at academics@icsi.edu

SUPPLEMENT FOR BANKING LAWS & PRACTICE

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LESSON 1

OVERVIEW OF BANKING SYSTEM

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State Bank of India and its Associate (Subsidiaries) Banks - A New Channel of Rural Credit

The names of State Bank of Bikaner and Jaipur, State Bank of Hyderabad, State Bank of Mysore, State Bank of Patiala, State Bank of Travancore and Bharatiya Mahila Bank have been excluded from the Second Schedule to the Reserve Bank of India Act, 1934 vide Notification DBR.No.Ret.BC.57/12.06.004/2017-18 dated March 30, 2017, and published in the Gazette of India (**Part III - Section 4**) dated July 15 – July 21, 2017.

Due to merger of State Bank of India and its associate banks, State Bank of India and its Associate (Subsidiaries) Banks replaced with State Bank of India in entire study material.

LESSON 2

REGULATORY FRAMEWORK AND COMPLIANCES

Page No. 30

The RBI has issued circular on 15.06.2018 on Prudential Norms for Classification, Valuation and Operation of Investment Portfolio by Banks – Spreading of MTM losses and creation of Investment Fluctuation Reserve (IFR).

In view of the continuing rise in the yields on Government Securities, as also the inadequacy of time to build investment fluctuation reserve (IFR) for many banks, it has been decided to grant banks the option to spread provisioning for their mark to market (MTM) losses on all investments held in AFS and HFT for the quarter ending June 30,

2018 as well. The provisioning required may be spread equally over up to four quarters, commencing with the quarter ending June 30, 2018.

Banks that utilise the above option shall make suitable disclosures in their notes to accounts/ quarterly results providing details of -

- (a) the provisions made for depreciation of the investment portfolio for the quarter ending June 2018 and
- (b) the balance required to be made in the remaining quarters.

It may be noted that the other requirements prescribed in the above circular, including creation of IFR, remain in force.

LESSON 6

LOANS AND ADVANCES

Page No. 188

RBI has issued a circular on 13.03.2018 on discontinuance of Letters of Undertaking (LoUs) and Letters of Comfort (LoCs) for Trade Credits.

1. Attention of Authorised Dealer Category - I (AD Category - I) banks is invited to paragraph 2 of A.P. (DIR Series) Circular No. 24 dated November 1, 2004 and paragraph No. 5.5 of Master Direction No.5 dated January 1, 2016 on 'External Commercial Borrowings, Trade Credit, Borrowing and Lending in Foreign Currency by Authorised Dealers and Persons other than Authorised Dealers' (Master Direction), as amended from time to time, on the issuance of LoUs/ LoCs/ guarantees for Trade Credits for imports into India under delegated powers of AD banks.

2. On a review of the extant guidelines, it has been decided to discontinue the practice of issuance of LoUs/ LoCs for Trade Credits for imports into India by AD Category –I banks with immediate effect. Letters of Credit and Bank Guarantees for Trade Credits for imports into India may continue to be issued subject to compliance with the

provisions contained in Department of Banking Regulation Master Circular No. DBR. No. Dir. BC.11/13.03.00/2015-16 dated July 1, 2015 on “Guarantees and Co-acceptances”, as amended from time to time.

3. AD Category-I banks may bring the contents of this circular to the notice of their constituents and customers.

4. The aforesaid Master Direction No. 5 dated January 01, 2016 will be updated to reflect the changes. The changes will be applicable from the date of issuance of this circular.

5. The directions contained in this circular have been issued under sections 10(4) and 11(1) of the Foreign Exchange Management Act, 1999 (42 of 1999) and are without prejudice to permissions/ approvals, if any, required under any other law.

II. Resolution of Stressed Assets – Revised Framework

1. The Reserve Bank of India has issued various instructions aimed at resolution of stressed assets in the economy, including introduction of certain specific schemes at different points of time. In view of the enactment of the Insolvency and Bankruptcy Code, 2016 (IBC), it has been decided to substitute the existing guidelines with a harmonised and simplified generic framework for resolution of stressed assets. The details of the revised framework are elaborated in the following paragraphs.

I. Revised Framework

A. Early identification and reporting of stress

2. Lenders¹ shall identify incipient stress in loan accounts, immediately on default², by classifying stressed assets as special mention accounts (SMA) as per the following categories:

SMA categories	Sub-	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

3. As provided in terms of the [circular DBS.OSMOS.No.14703/33.01.001/2013-14 dated May 22, 2014](#) and subsequent amendments thereto, lenders shall report credit information, including classification of an account as SMA to Central Repository of Information on Large Credits (CRILC) on all borrower entities having aggregate exposure³ of ` 50 million and above with them. The CRILC-Main Report will now be required to be submitted on a *monthly* basis effective April 1, 2018. In addition, the lenders shall report to CRILC, all borrower entities in default (with aggregate exposure of ` 50 million and above), on a weekly basis, at the close of business on every Friday, or the preceding working day if Friday happens to be a holiday. The first such weekly report shall be submitted for the week ending February 23, 2018.
4. As provided in terms of the [circular DBS.OSMOS.No.14703/33.01.001/2013-14 dated May 22, 2014](#) and subsequent amendments thereto, lenders shall report credit information, including classification of an account as SMA to Central Repository of Information on Large Credits (CRILC) on all borrower entities having aggregate exposure³ of ` 50 million and above with them. The CRILC-Main Report will now be required to be submitted on a *monthly* basis effective April 1, 2018. In addition, the lenders shall report to CRILC, all borrower entities in default (with aggregate exposure of ` 50 million and above), on a weekly basis, at the close of business on every Friday, or the

preceding working day if Friday happens to be a holiday. The first such weekly report shall be submitted for the week ending February 23, 2018.

B. Implementation of Resolution Plan

All lenders must put in place Board-approved policies for resolution of stressed assets under this framework, including the timelines for resolution. As soon as there is a default in the borrower entity's account with any lender, all lenders – singly or jointly – shall initiate steps to cure the default. The resolution plan (RP) may involve any actions / plans / reorganization including, but not limited to, regularisation of the account by payment of all over dues by the borrower entity, sale of the exposures to other entities / investors, change in ownership, or restructuring⁴. The RP shall be clearly documented by all the lenders (even if there is no change in any terms and conditions).

C. Implementation Conditions for RP

5. A RP in respect of borrower entities to whom the lenders continue to have credit exposure, shall be deemed to be 'implemented' only if the following conditions are met:
 - a. the borrower entity is no longer in default with any of the lenders;
 - b. if the resolution involves restructuring; then
 - i. all related documentation, including execution of necessary agreements between lenders and borrower / creation of security charge / perfection of securities are completed by all lenders; and
 - ii. 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.
6. Additionally, RPs involving restructuring / change in ownership in respect of 'large' accounts (i.e., accounts where the aggregate exposure of lenders is ` 1 billion and above), shall require independent credit evaluation (ICE) of the

residual debt by credit rating agencies (CRAs) specifically authorised by the Reserve Bank for this purpose. While accounts with aggregate exposure of ` 5 billion and above shall require two such ICEs, others shall require one ICE. Only such RPs which receive a credit opinion of RP4⁶ 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:

- (a) The CRAs shall be directly engaged by the lenders and the payment of fee for such assignments shall be made by the lenders.
7. The above requirement of ICE shall be applicable to restructuring of all large accounts implemented from the date of this circular, even if the restructuring is carried out before the 'reference date' stipulated in paragraph 8 below.

D. Timelines for Large Accounts to be Referred under IBC

8. In respect of accounts with aggregate exposure of the lenders at ` 20 billion and above, on or after March 1, 2018 ('reference date'), including accounts where resolution may have been initiated under any of the existing schemes as well as accounts classified as restructured standard assets which are currently in respective specified periods (as per the previous guidelines), RP shall be implemented as per the following timelines:
- i) If in default as on the reference date, then 180 days from the reference date.
 - ii) If in default after the reference date, then 180 days from the date of first such default.
9. If a RP in respect of such large accounts is not implemented as per the timelines specified in paragraph 8, lenders shall file insolvency application, singly or jointly, under the Insolvency and Bankruptcy Code 2016 (IBC)⁷

within 15 days from the expiry of the said timeline⁸.

10. In respect of such large accounts, where a RP involving restructuring/change in ownership is implemented within the 180-day period, the account should not be in default at any point of time during the 'specified period', failing which the lenders shall file an insolvency application, singly or jointly, under the IBC within 15 days from the date of such default.

'Specified period' means the period from the date of implementation of RP up to the date by which at least 20 percent of the outstanding principal debt as per the RP and interest capitalisation sanctioned as part of the restructuring, if any, is repaid.

Provided that the specified period cannot end 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.

11. Any default in payment after the expiry of the specified period shall be reckoned as a fresh default for the purpose of this framework.
12. For other accounts with aggregate exposure of the lenders below ` 20 billion and, at or above ` 1 billion, the Reserve Bank intends to announce, over a two-year period, reference dates for implementing the RP to ensure calibrated, time-bound resolution of all such accounts in default.
13. It is, however, clarified that the said transition arrangement shall not be available for borrower entities in respect of which specific instructions have already been issued by the Reserve Bank to the banks for reference under IBC. Lenders shall continue to pursue such cases as per the earlier instructions.

E. Prudential Norms

14. The revised prudential norms applicable to any restructuring, whether under the IBC framework or outside the IBC, are contained in **Annex-1⁹**. The provisioning in respect of exposure to borrower entities against whom insolvency applications are filed under the IBC shall be as per their asset classification in terms of the Master Circular on Prudential norms on Income

II. Supervisory Review

15. Any failure on the part of lenders in meeting the prescribed timelines or any actions by lenders with an intent to conceal the actual status of accounts or evergreen the stressed accounts, will be subjected to stringent supervisory / enforcement actions as deemed appropriate by the Reserve Bank, including, but not limited to, higher provisioning on such accounts and monetary penalties¹¹.

III. Disclosures

16. Banks shall make appropriate disclosures in their financial statements, under 'Notes on Accounts', relating to resolution plans implemented. Detailed guidelines will be issued separately.

IV. Exceptions

17. Restructuring in respect of projects under implementation involving deferment of date of commencement of commercial operations (DCCO), shall continue to be covered under the guidelines contained at paragraph 4.2.15 of the [Master Circular No. DBR.No.BP.BC.2/21.04.048/2015-16 dated July 1, 2015](#) on 'Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances'.

V. Withdrawal of extant instructions

18. 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 (S4A) stand withdrawn with immediate effect. Accordingly, the Joint Lenders' Forum (JLF) as an institutional mechanism for resolution of stressed accounts also stands discontinued. All accounts, including such accounts where any of the schemes have been invoked but not yet implemented, shall be governed by the revised framework.
19. The list of circulars/directions/guidelines subsumed in this circular and thereby stand repealed from the date of this circular is given in **Annex - 3**.
20. The above guidelines are issued in exercise of powers conferred under Section 35A, 35AA (read with S.O.1435 (E) dated May 5, 2017 issued by the Government of India) and 35AB of the Banking Regulation Act, 1949; and, Section 45(L) of the Reserve Bank of India Act, 1934.

Page No. 191

RBI has issued circular on 07.02.2018 on Relief for MSME Borrowers registered under Goods and Services Tax (GST)

Presently, banks and NBFCs in India generally classify a loan account as Non-Performing Asset (NPA) based on 90 day and 120 day delinquency norms, respectively. It has been represented to us that formalisation of business through registration under GST had adversely impacted the cash flows of the smaller entities during the transition phase with consequent difficulties in meeting their repayment obligations to banks and NBFCs. As a measure of support to these entities in their transition to a formalised

business environment, it has been decided that the exposure of banks and NBFCs to a borrower classified as micro, small and medium enterprise under the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, shall continue to be classified as a standard asset in the books of banks and NBFCs subject to the following conditions:

(i) The borrower is registered under the GST regime as on January 31, 2018.

(ii) The aggregate exposure, including non-fund based facilities, of banks and NBFCs, to the borrower does not exceed ` 250 million as on January 31, 2018.

(iii) The borrower's account was standard as on August 31, 2017.

(iv) The amount from the borrower overdue as on September 1, 2017 and payments from the borrower due between September 1, 2017 and January 31, 2018 are paid not later than 180 days from their respective original due dates.

(v) A provision of 5% shall be made by the banks/NBFCs against the exposures not classified as NPA in terms of this circular. The provision in respect of the account may be reversed as and when no amount is overdue beyond the 90/1201 day norm, as the case may be.

(vi) The additional time is being provided for the purpose of asset classification only and not for income recognition, i.e., if the interest from the borrower is overdue for more than 90/1202 days, the same shall not be recognised on accrual basis.

Page No. 201

The RBI has issued Master Circular on 03.07.2017 on Credit facilities to Scheduled Castes (SCs) & Scheduled Tribes (STs).

Banks should take the following measures to step up their advances to SCs / STs:

1. Planning Process

- 1.1 The District Level Consultative Committees formed under the Lead Bank Scheme should continue to be the principal mechanism of co-ordination between banks and development agencies in this regard.
- 1.2 The district credit plans formulated by the lead banks should clearly indicate the linkage of credit with employment and development schemes.
- 1.3 Banks will have to establish closer liaison with the District Industries Centres, which have been set up in different districts for promoting self-employment.
- 1.4 At the block level, a certain weightage is to be given to scheduled castes / scheduled tribes in the planning process. Accordingly, the credit planning should be weighted in favour of scheduled castes / scheduled tribes and special bankable schemes suited to members of these communities should be drawn up to ensure their participation in such schemes and larger flow of credit to them for self-employment. It will be necessary for the banks to consider loan proposals of these communities with utmost sympathy and understanding.
- 1.5 Banks should periodically review their lending procedures and policies to see that loans are sanctioned in time, are adequate and production-oriented and that they generate incremental income to make them self-liquidating.
- 1.6 While 'adopting' villages for intensive lending, villages with sizeable population of these communities may be specially chosen; the alternative of adopting specific localities (bastis) in the concerned villages which have a concentration of these communities could also be considered.

2. Role of Banks

- 2.1 Bank staff may help the poor borrowers in filling up the forms and completing other formalities so that they are able to get credit facility within a stipulated period from the date of receipt of applications.

- 2.2 In order to encourage SC / ST borrowers to take advantage of credit facilities, greater awareness among them about various schemes formulated by banks will have to be created. As a majority of the eligible borrowers would be illiterate persons, publicity through brochures, other literature, etc. will be of limited utility. The more desirable method would be for the field staff of banks to contact such borrowers and explain to them the salient features of the schemes as also the advantages that will accrue. Banks should advise their branches to organize meetings more frequently exclusively for SC / ST beneficiaries to understand their credit needs and to incorporate the same in the credit plan.
- 2.3 Circulars issued by RBI / NABARD should be circulated among the staff for compliance.
- 2.4 Banks should not insist on deposits while considering loan applications under Government sponsored poverty alleviation schemes / self-employment programmes from borrowers belonging to SCs / STs. It should also be ensured that applicable subsidy is not held back while releasing the loan component till the full repayment of bank dues. Non release of subsidy upfront amounts to under-financing and hampers asset creation / income generation.
- 2.5 The National Scheduled Tribes Finance & Development Corporation and National Scheduled Castes Finance & Development Corporation have been set up under the administrative control of Ministry of Tribal Affairs and Ministry of Social Justice & Empowerment, respectively. The banks should advise their branches / controlling offices to render all the necessary institutional support to enable the institution to achieve the desired objectives.
- 2.6 Advances sanctioned to State sponsored organizations of SC / ST, for the specific purpose of purchase and supply of inputs to and / or the marketing of outputs of the beneficiaries viz. artisans, village and cottage industries of these organizations, should be treated as Priority Sector Advances, subject to the condition that the relative advances are exclusively for the purpose of purchase and supply of inputs to and / or marketing of the outputs of beneficiaries of these organizations.
- 2.7 Rejection of loan applications in respect of SCs / STs should be done at the next higher level instead of at the branch level and reasons of rejection should be clearly indicated.

3. Role of SC / ST Development Corporations

The Government of India has advised all State Governments that the Scheduled Caste/ Tribes Development Corporations can consider bankable schemes / proposals for bank finance. As regards Collateral Security and / or third party guarantee for loans, guidelines issued to banks on priority sector lending will apply.

4. Reservations for SC / ST Beneficiaries under Major Centrally Sponsored Schemes.

There are several major centrally sponsored schemes under which credit is provided by banks and subsidy is received through Government Agencies. Credit flow under these schemes is monitored by RBI. Under each of these, there is a significant reservation / relaxation for the members of the SC / ST communities.

(i) Deendayal Antyodaya Yojana - National Rural Livelihoods Mission:

The Ministry of Rural Development, Government of India has launched Deendayal Antyodaya Yojana-National Rural Livelihood Mission (DAY-NRLM) by restructuring erstwhile Swarnajayanti Gram Swarozgar Yojana, effective from April 01, 2013. DAY-NRLM would ensure adequate coverage of vulnerable sections of the society such that 50% of these beneficiaries are SC/STs. Details regarding the scheme of DAY-NRLM are available in the Master Circular FIDD.GSSD.CO.BC.No.04/09.01.01/2017-18 dated July 01, 2017.

(ii) Deendayal Antyodaya Yojana - National Urban Livelihoods Mission:

The Ministry of Housing and Urban Poverty Alleviation (MoHUPA), Government of India, has launched the Deendayal Antyodaya Yojana - National Urban Livelihoods Mission (DAY-NULM) by restructuring erstwhile Swarna Jayanti Shahari Rozgar Yojana (SJSRY), effective from September 24, 2013, Under DAY-NULM, advances should be extended to SCs / STs to the extent of their strength in the local population. Details regarding the scheme of DAY-NULM are available in the Master Circular FIDD.GSSD.CO.BC.No.03/09.16.03/2017-18 dated July 01, 2017.

(iii) Differential Rate of Interest Scheme

Under the DRI Scheme, banks provide finance up to ₹15,000/- at a concessional rate of interest of 4 percent per annum to the weaker sections of the community for engaging in productive and gainful activities. In order to ensure that persons belonging to SCs / STs also derive adequate benefit under the Differential Rate of Interest (DRI) Scheme, banks have been advised to grant to eligible borrowers belonging to SCs / STs such advances to the extent of not less than 2/5th (40 percent) of total DRI advances. Further, the eligibility criteria under DRI that size of land holding should not exceed 1 acre of irrigated land and 2.5 acres of unirrigated land are not applicable to SCs / STs. Members of SCs / STs satisfying the income criteria of the scheme can also avail of housing loan up to ₹.20,000/- per beneficiary over and above the individual loan of ₹.15,000/- available under the scheme.

5. Monitoring and Review

5.1 A special cell should be set up at the Head Office of banks for monitoring the flow of credit to SC / ST beneficiaries. Apart from ensuring the implementation of the RBI guidelines, the cell would also be responsible for collection of relevant information / data from the branches, consolidation thereof and submission of the requisite returns to RBI and Government.

5.2 Convenor bank (of SLBC) should invite the representative of National Commission for SCs / STs to attend SLBC meetings. Besides, the Convener bank may also invite representatives from National Scheduled Castes and Scheduled Tribes Finance and Development Corporation (NSFDC) and State Scheduled Castes and Scheduled Tribes Finance and Development Corporation (SCDC) to attend SLBC meetings

5.3 A periodical review should be made by the Head Office of banks of the credit extended to SCs / STs on the basis of returns and other data received from the branches.

5.4 Bank should review the measures taken to enhance the flow of credit to SC / ST borrowers on a quarterly basis. The Review should also consider the progress

made in lending to these communities directly or through the State level Scheduled Caste / Scheduled Tribe Corporations for various purposes based, amongst others, on field visits of the senior officers from the Head Office / Controlling Offices. Any major gap or variation in credit flow to SC/ST on a year to year basis should be reported to Board of the Bank for review under the themes of “Financial Inclusion” in term of circular DBRNo.BC.93/29.67.001/2014-15 dated May14, 2015.

6. Reporting Requirements

Data on advances to SCs and STs should be reported as prescribed in Master Direction under Priority sector lending vide Master Direction FIDD.CO.Plan.1/04.09.01/2016-17 dated July 07, 2016 and updated as on December 22, 2016. Banks are advised to submit the same in a timely manner.

LESSON 10

INTERNATIONAL BANKING MANAGEMENT

Page No. 318

RBI has issued circular on 27.04.2018 on External Commercial Borrowings (ECB) Policy – Rationalisation and Liberalisation

1. For information of Authorized Dealer Category-I (AD Category-I) the banks has invited to Master Direction No.5 dated January 1, 2016 on External Commercial Borrowings, Trade Credit, Borrowing and Lending in Foreign Currency by Authorised Dealers and Persons other than Authorised Dealers, as amended from time to time.
2. Corporates and other entities planning to avail ECB to meet their capital needs have been approaching RBI for relaxations in the existing ECB framework. In light of the requests received and experience gained in administering the ECB regime, it has been decided, in consultation with the Government of India, to further rationalise and liberalize the ECB guidelines as under:-

(i) Rationalisation of all-in-cost for ECB under all tracks and Rupee denominated bonds (RDBs) :

With a view to harmonising the extant provisions of Foreign Currency and Rupee ECBs and RDBs, it has been decided to stipulate a uniform all-in-cost ceiling of 450 basis points over the benchmark rate. The benchmark rate will be 6 month USD LIBOR (or applicable benchmark for respective currency) for Track I and Track II, while it will be prevailing yield of the Government of India securities of corresponding maturity for Track III (Rupee ECBs) and RDBs.

(ii) Revisiting ECB Liability to Equity Ratio provisions:

It has been decided to increase the ECB Liability to Equity Ratio for ECB raised from direct foreign equity holder under the automatic route to 7:1. This ratio will not be applicable if total of all ECBs raised by an entity is up to USD 5 million or equivalent.

(iii) Expansion of Eligible Borrowers' list for the purpose of ECB:

It has been decided to permit:

a) Housing Finance Companies, regulated by the National Housing Bank, as eligible borrowers to avail of ECBs under all tracks. Such entities shall have a board approved risk management policy and shall keep their ECB exposure hedged 100 per cent at all times for ECBs raised under Track I.

b) Port Trusts constituted under the Major Port Trusts Act, 1963 or Indian Ports Act, 1908 to avail of ECBs under all tracks. Such entities shall have a board approved risk management policy and shall keep their ECB exposure hedged 100 per cent at all times for ECBs raised under Track I.

c) Companies engaged in the business of Maintenance, Repair and Overhaul and freight forwarding to raise ECBs denominated in INR only.

(iv) Rationalisation of end-use provisions for ECBs:

Currently, a positive end-use list is prescribed for Track I and specified category of borrowers, while negative end-use list is prescribed for Track II and III. **It has now been decided to have only a negative list for all tracks.** The negative list for all Tracks would include the following:

a. Investment in real estate or purchase of land except when used for affordable housing as defined in Harmonised Master List of Infrastructure Sub-sectors notified by Government of India, construction and development of SEZ and industrial parks/integrated townships.

b. Investment in capital market.

c. Equity investment.

Additionally for Tracks I and III, the following negative end uses will also apply except when raised from Direct and Indirect equity holders or from a Group company, and provided the loan is for a minimum average maturity of five years:

d. Working capital purposes.

e. General corporate purposes.

f. Repayment of Rupee loans.

Finally, for all Tracks, the following negative end use will also apply:

g. On-lending to entities for the above activities from (a) to (f).

3. All other provisions of the ECB policy shall remain unchanged. AD Category - I banks may bring the contents of this circular to the notice of their constituents and customers.

4. The aforesaid Master Direction No. 5 dated January 01, 2016 is being updated to reflect the changes.

5. The directions contained in this circular have been issued under section 10(4) and 11(2) of the Foreign Exchange Management Act, 1999 (42 of 1999) and are without prejudice to permissions / approvals, if any, required under any other law.

LESSON 12

RISK MANAGEMENT IN BANKS

Page No. 358

The RBI has issued circular on 15.06.2018 on Basel III Framework on Liquidity Standards - Liquidity Coverage Ratio (LCR), Liquidity Risk Monitoring Tools and LCR Disclosure Standards.

1. Please refer circular no. DBR.BP.BC.No.2/21.04.098/2016-17 dated July 21, 2016 and other associated circulars issued by the RBI on the captioned subject.

2. At present, the assets allowed as the Level 1 High Quality Liquid Assets (HQLAs) for the purpose of computing the LCR of banks, inter alia, include (a) Government securities in excess of the minimum SLR requirement and, (b) within the mandatory SLR requirement,

(i) Government securities to the extent allowed by RBI under Marginal Standing Facility (MSF) [presently 2 per cent of the bank's NDTL] and

(ii) under Facility to Avail Liquidity for Liquidity Coverage Ratio (FALLCR) [presently 9 per cent of the bank's NDTL].

3. It has been decided to permit banks, with effect from the date of this circular, to reckon Government securities held by them up to another 2 per cent of their NDTL, under FALLCR within the mandatory SLR requirement, as Level 1 HQLA for the purpose of computing their LCR. Hence, the carve-out from SLR, under FALLCR will

now be 11 per cent, taking the total carve out from SLR available to banks to 13 per cent of their NDTL.

4. For the purpose of LCR, banks shall continue to value such government securities reckoned as HQLA at an amount not greater than their current market value (irrespective of the category under which the security is held, i.e., HTM, AFS or HFT).

LESSON 13

ETHICS AND CORPORATE GOVERNANCE IN BANKS

Page No.376 - Customer Service Committee

The RBI has issued Master Circular on 12.10.2017 on the Scheme of Penalties for bank branches including currency chests based on performance in rendering customer service to members of public.

1. The scheme of Penalties for bank branches including currency chests has been formulated in order to ensure that all bank branches provide better customer service to members of public with regard to exchange of notes and coins, in keeping with the objectives of Clean Note Policy.

2. Penalties

Penalties to be imposed on banks for deficiencies in exchange of notes and coins/remittances sent to RBI/operations of currency chests etc. are as follows:

Sr. No.	Nature of Irregularity	Penalty
i.	Shortages in soiled note remittances and currency chest balances	<p>For notes in denomination upto Rs.50</p> <p>Rs.50/- per piece in addition to the loss</p> <p>For notes in denomination of Rs.100 & above</p>

		<p>Equal to the value of the denomination per piece in addition to the loss.</p> <p>Shortages of 100 pieces and above per remittance shall be debited immediately. Penalty may be levied on reaching a limit of 100 pieces in a cumulative manner.</p>
ii.	Counterfeit notes detected in soiled note remittances and currency chest balances.	Penalty on account of detection of counterfeit notes by RBI from soiled note remittance of banks and in currency chest balances shall be levied in terms of the instructions issued by DCM (FNVD) No.G-4/16.01.05/2017-18 dated July 20, 2017.
	Mutilated notes detected in soiled note remittances and currency chest balances	Rs.50/- per piece irrespective of the denomination Mutilated notes of 100 pieces and above per remittance shall be debited immediately. Penalty may be levied on reaching a limit of
	<p>Non-compliance with operational guidelines by currency chests detected by RBI officials</p> <p>a) Non-functioning of CCTV</p> <p>b) Branch cash/documents kept in strong room</p> <p>c) Non-utilization of NSMs for sorting of notes (NSMs not used</p>	<p>Penalty of Rs. 5000 for each irregularity.</p> <p>Penalty will be enhanced to Rs.10,000 in case of repetition.</p> <p>Penalty will be levied immediately.</p>

	for sorting of high denomination notes received over the counter or not used for sorting notes remitted to chest/RBI)	
v.	<p>Violation of any term of agreement with RBI (for opening and maintaining currency chests) or deficiency in service in providing exchange facilities, as detected by RBI officials e.g.</p> <p>a) Non-issue of coins over the counter to any member of public despite having stock.</p> <p>b) Refusal by any bank branch to exchange soiled notes / refusal by any currency chest branch to adjudicate mutilated notes tendered by any member of public</p> <p>c) Non conduct of surprise verification of chest balances, at least at bimonthly intervals, by officials unconnected with the custody thereof and by the officials from the Controlling Office once in six months.</p> <p>d) Denial of facilities/services to linked branches of other banks.</p>	<p>Rs.10,000 for any violation of agreement or deficiency of service.</p> <p>Rs.5 lakh in case there are more than 5 instances of violation of agreement/deficiency in service by the branch. The levy of such penalty will be placed in public domain.</p> <p>Penalty will be levied immediately.</p>

	<p>e) Non acceptance of lower denomination notes (i.e. denomination of Rs.50 and below) tendered by members of public and linked bank branches.</p> <p>f) Detection of mutilated /counterfeit notes in re-issuable packets prepared by the currency chest branches.</p>	
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3. Operational Guidelines on levy of penalties –

3.1 Competent Authority –

The Competent Authority to **decide the nature of irregularity** will be the Officer-in-Charge of the Issue Department of the Regional Office under whose jurisdiction the defaulting currency chest/bank branch is located.

3.2 Appellate Authority –

- i. Appeal against the decision of the Competent Authority may be made by the Controlling Office of the currency chest/branch to the Regional Director of the Regional Office concerned, within one month from the date of debit, who may decide whether the same can be accepted/ rejected.
- ii. Appeals for waiver of penalty made on grounds such as staff being new/untrained, lack of awareness of staff, corrective action having been taken/will be taken, etc. will not be considered.