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PROFESSIONAL ROGRAMME

(OLD SYLLABUS)

SUPPLEMENT FOR

BANKING- LAW & PRACTICE

MODULE 3

ELECTIVE PAPER 9.1

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Lesson 2

Regulatory Framework and Compliances

Framework for imposing monetary penalty on authorised payment system operators / banks under the Payment and Settlement Systems Act, 2007

(Notification No. RBI/2019-20/140 DPSS.CO.OD.No.1328/06.08.005/201 9-20 dated 10.01.2020.)

The Reserve Bank of India (RBI) has revised the Framework for imposing monetary penalty on authorised payment system operators/banks under the Payment and Settlement Systems Act, 2007. To ensure that the payment systems are safe and secure and the various stakeholders conform to regulatory requirements, on review it has been decided to revise the process of levy of penalty on payment system operators by the Reserve Bank of India. The revised framework continues to centre a round objectivity and transparency in the decision-making process. It may be noted that action taken under this framework would be without prejudice to any other laws of the country.

For further details please visit: https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11785&Mode=0

Basel III Framework on Liquidity Standards – Liquidity Coverage Ratio (LCR)

(Notification no. RBI/2019- 20/217 DOR.BP.BC.No.65/ 21.04. 098/2019-20 on April 17, 2020)

As part of post Global Financial Crisis (GFC) reforms, Basel Committee of Reserve Bank of India (RBI) 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 Statutory Liquidity Ratio (SLR). In view of the fact that liquid assets under SLR and HQLAs under LCR are largely the same, RBI has 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.

For further details please visit: https://rbidocs.rbi.org.in/rdocs/notification/PDFs/NT2170558BB99816C46E1993A0920861FCCC7.PDF

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Lesson 3

Legal Aspects of Banking Operations

Cash withdrawal using Point of Sale (PoS) terminals

(Notification No. RBI/2019-20/154DPSS.CO.PD No.1465/02.14.003/2019-20 dated January 31, 2020)

The RBI has decided that the requirement of obtaining permission from the RBI be dispensed with and that henceforth, banks may, based on the approval of their Board, provide cash withdrawal facility at PoS terminals. The designated merchant establishments may be advised to clearly indicate/display the availability of this facility along with the charges, if any, payable by the customer.

For further details please visit: https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11802&Mode=0

Guidelines for Licensing of Small Finance Banks (SFB) in Private Sector

(Notification no. RBI/2019- 20/196DOR.NBD.No.44/16.13. 218/2019- 20 on March 28, 2020)

(i) To harmonise the instructions for existing SFBs with those SFBs to be licensed under 'Guidelines for 'on-tap' Licensing', it has been decided to:

> (a) Grant general permission to all existing SFBs to open banking outlets subject to adherence to Unbanked Rural Centre norms as per RBI circular on 'Rationalisation of Branch Authorisation Policy - Revision of Guidelines' dated May 18, 2017, as amended from time to time.
>
> (b) Exempt all existing SFBs from seeking prior approval of Reserve Bank for undertaking such non risk sharing simple financial service activities, which do not require any commitment of own fund, after three years of commencement of business of SFB.

(ii) Further, in case of existing SFBs, it is clarified that –

> (a) Whether a promoter could cease to be a promoter or could exit from the bank after completion of a period of five years, would depend on the RBI's regulatory and supervisory comfort / discomfort and SEBI regulations in this regard at that time (Reference: Response to query number 101 of 'Clarifications to queries on guidelines for licensing of Small Finance Banks in the Private Sector' dated January 1, 2015).
>
> (b) The phrase 'paid-up equity capital' in 'Guidelines for Licensing of SFBs in Private Sector - 2014' means 'paid-up voting equity capital' (Reference: Response to query number 104 of 'Clarifications to queries on guidelines for licensing of Small Finance Banks in the Private Sector' dated January 1, 2015).

For further details please visit: https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11845&Mode=0

Lesson 5

Banker - Customer Relations

Amendment to Master Direction (MD) on KYC

(Notification No. RBI/2019-20/207DOR.AML.BC.No.61/14.01.001/2019-20 on April 01, 2020)

The Government of India, vide Gazette Notification G.S.R. 228(E) dated March 31, 2020 has notified amendment to the Prevention of Money-laundering (Maintenance of Records) Rules, 2005. Consequent to the aforementioned amendment to the PML Rules, Master Direction on KYC dated February 25, 2016 has been updated as under: Clause (g) has been inserted in the conditions stipulated for Small Accounts in Section 23 of the MD. Clause (g) reads as, "Notwithstanding anything contained in clauses (e) and (f) above, the small account shall remain operational between April 1, 2020 and June 30, 2020 and such other periods as may be notified by the Central Government." The Master Direction on KYC dated February 25, 2016, is hereby amended to reflect the above change and shall come into force with immediate effect.

For further details please visit: https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11857&Mode=0

Internal ML/TF risk assessment by Regulated Entities (Res) - Amendment to Master Direction (MD) on KYC

(Notification no. RBI/2019- 20/ 221DOR.AML.BC.No. 66/ 14.01.001 / 2019-20 on April 20, 2020)

The Master Direction on KYC dated February 25, 2016, has been updated and a new section has been inserted in Rule 9(13) of the PML Rules 2005. A new section (5A) has been added to chapter II of the Master Directions on KYC requiring Regulated Entities (Res) to carry out 'Money Laundering (ML) and Terrorist Financing (TF) Risk Assessment' exercise periodically to identify, assess and take effective measures to mitigate its money laundering and terrorist financing risk for clients, countries or geographic areas, products, services, transactions or delivery channels, etc. While assessing the ML/TF risk, the REs are required to take cognizance of the overall sector-specific vulnerabilities, if any, that the regulator/supervisor may share with REs from time to time. Further, the internal risk assessment carried out by the RE should be commensurate to its size, geographical presence, complexity of activities/structure, etc. Also, the REs shall apply a Risk Based Approach (RBA) for mitigation and management of the identified risk and should have Board approved policies, controls and procedures in this regard.

For further details please visit: https://rbidocs.rbi.org.in/rdocs/notification/PDFs/221IRAMDKYC 501344A199CE47A5959F047427D7D56A.PDF

Master Direction – Know Your Customer (KYC) Direction, 2016 applicable on Housing Finance Companies (HFC)

(Notification No. RBI/2019-20/235DOR.NBFC (HFC).CC.No.111/ 03.10. 136/ 2019-20 dated May 19, 2020)

The Reserve Bank of India had consolidated directions on Know Your Customer (KYC), Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT) and issued Master Direction – Know Your Customer (KYC) Direction, 2016 on February 25, 2016 to follow certain procedures for customer identification by Regulated Entities for undertaking a transaction either by establishing an account-based relationship or otherwise and monitor their transactions.

In 2019 the Finance (No.2) Act, 2019 (23 of 2019) has amended the National Housing Bank Act, 1987 conferring certain powers for regulation of Housing Finance Companies (HFCs) with Reserve Bank of India. Now all HFCs are treated as one of the categories of Non-Banking Financial Companies (NBFCs) for regulatory purposes. In this connection, it has been decided by the competent authorities and a notification issued in May 2020 to extend the Master Direction – Know Your Customer (KYC) Direction, 2016 to all Housing Finance Companies.

For further details please visit: https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11892&Mode=0

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Lesson 6

Loans and Advances

Interest Subvention Scheme for MSMEs

(Notification No. RBI/2019-20/155 FIDD.CO.MSME.BC.No.17/06.02.031/2019-20 dated February 5, 2020)

The RBI has issued operational guidelines for the captioned scheme contained in circular on 'Interest Subvention Scheme for MSMEs' issued vide FIDD.CO.MSME.BC.No.14/06.02.031/2018-19 dated February 21, 2019.

In this regard, it has been decided by the Government of India to bring, inter alia, following modifications in the operational guidelines:

(i) Submission of statutory auditor certificate by June 30, 2020 and in the meantime, settle claims based on internal / concurrent auditor certificate.
(ii) Acceptance of claims in multiple lots for a given half year by eligible institutions.
(iii) Requirement of Udyog Aadhar Number (UAN) may be dispensed with for units eligible for GST. Unit not required to obtain GST, may either submit Income Tax Permanent Account Number (PAN) or their loan account must be categorized as MSME by the concerned bank.
(iv) Allow trading activities also without Udyog Aadhar Number (UAN)

For further details please visit: https://rbidocs.rbi.org.in/rdocs/notification/PDFs /NT155E4A0F30998 1441CCAABE0D629DF1A540.PDF

Electronic Cards for Overdraft Accounts

(Notification no. RBI/2019- 20/225DOR.FSD.BC.No.67/ 24.01.041/2019-20 on April 23, 2020)

As per Para II.2 of 'Master Circular on Credit Card, Debit Card and Rupee Denominated Cobranded Pre-paid Card Operations of Banks and Credit Card issuing NBFCs' dated July 1, 2015 wherein banks have been permitted to issue debit cards to customers having Saving Bank/Current Accounts but not to cash credit/loan account holders. In this connection, it has been decided to permit banks to issue electronic cards to natural persons having Overdraft Accounts that are only in the nature of personal loan without any specific end-use restrictions. The card shall be issued for a period not exceeding the validity of the facility and shall also be subject to the usual rights of the banks as lenders. The electronic card for Overdraft Accounts in the nature of personal loans shall be allowed to be used for domestic transactions only. Further, adequate checks and balances shall be put in place to ensure that the usage of such cards is restricted to facilitate online/ non-cash transactions. The restriction on cash transaction will not apply to overdraft facility provided along with Pradhan Mantri Jan Dhan Yojana (PMJDY) accounts.

For further details please visit: https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=11878&Mode=0

Loans Sourced by Banks and NBFCs over Digital Lending Platforms: Adherence to Fair Practices Code and Outsourcing Guidelines

(Notification No. RBI/2019-20/258 DOR(NBFC)(PD)CC.No.112/03.10.001/2019-20 Dated June 24, 2020)

It has been observed that many digital platforms have emerged in the financial sector claiming to offer hassle free loans to retail individuals, small traders, and other borrowers. Banks and NBFCs are also seen to be engaging digital platforms to provide loans to their customers. In addition, some NBFCs have been registered with Reserve Bank as 'digital-only' lending entities while some NBFCs are registered to work both on digital and brick-mortar channels of credit delivery. Thus banks and NBFCs are observed to lend either directly through their own digital platforms or through a digital lending platform under an outsourcing arrangement.

For further details please visit https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11920&Mode=0

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Lesson 12

Risk Management in Banks

Reporting of Large Exposures to Central Repository of Information on Large Credits (CRILC) – UCBs

(Notification No. RBI/2019-20/144DoS.OSMOS.No.4633/33.05.018/2019-20 dated January 16, 2020)

The Primary (Urban) Co-operative Banks (UCBs) having total assets of Rs. 500 crore and above as on 31st March of the previous financial year shall report credit information, including classification of an account as Special Mention Account (SMA), on all borrowers having aggregate exposures of Rs. 5 crore and above with them to Central Repository of Information on Large Credits (CRILC) maintained by the Reserve Bank.

The operational guidelines for reporting the CRILC– UCBs return are as follows:

i. The reporting frequency of the CRILC– UCBs return is quarterly to start with. The banks need to submit the data on large exposures within 30 days from the end of the quarter through XBRL reporting platform of RBI. Banks may put in place appropriate systems to be in readiness to submit the return on a more frequent periodicity.

ii. CRILC – UCBs return will comprise of three sections viz.

Section 1: Exposure to Large Borrowers,

Section 2: Reporting of Technically / Prudentially Written-off Accounts and

Section 3: Reporting of Balance in Current Account.

For further details please visit: https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11790&Mode=0

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