Risk Based Internal Audit (RBIA) in NBFCs

In its continuing focus on mitigating systemic risks posed by large sized NBFCs or "near-banks" and ongoing attempts to ensure a commensurate (similar to that applying to banks) regulation and supervision over such NBFCs, RBI has now applied the RBIA to deposit taking NBFCs and those NBFCs with asset size of Rs. 5000 crores or more. The RBIA framework besides requiring risk assessment and a risk-based audit plan emphasizes on independence and objectivity of the function in terms of its authority, stature and place in the organization.

Master Directions on Digital Payment Security Controls

RBI has issued guidelines to all Regulated Entities (REs) requiring a robust governance structure and common minimum-security control standards for digital payment products and services. It requires REs to formulate a Board approved policy for digital payment products and services. The rules require regulated entities to have effective oversight and conduct periodic risk assessment of their proprietary and associated third-party services. As the minimum standards are based mostly on industry best practices, the move is expected to improve the overall security of digital payment channels and also convenience for users.

Draft Master Directions on Credit Derivatives

Responding to the market feedback on increasing the base of protection sellers and in order to alleviate some existing operational constraints, RBI has since reviewed the CDS guidelines issued in January 2013 and has put out its draft Direction for further feedback. Recognising the need to increase liquidity in the CDS market, the market is now to be opened to retail users for hedging purposes while non retail users would be able to trade in CDS beyond their hedging requirements. Loans as a reference obligation for issuance of CDS would continue to be excluded.

RBI Ombudsman Schemes- Annual Report - 2019-20

The Annual Report highlights a 64.97% increase in receipt of complaints under the three Ombudsman Schemes from the previous year. Major grounds of complaints included un-fair practices; breach of regulations; charges without notice, etc. Moving forward, by June 2021, the alternate dispute resolution mechanisms are being unified into a single dispensation ("One Nation, One Ombudsman") to simplify and increase consumer access to this resolution channel. Also on anvil is a consumer education initiative to focus on increased digitalisation in banking.

Investment in NBFCs from FATF non-compliant jurisdictions

RBI has now formally announced its policy to not treat investors in NBFCs from FATF non-compliant jurisdictions on par with those from FATF compliant countries. Accordingly, new investors investing directly/indirectly in existing/ new NBFCs from FATF non-compliant jurisdictions, in aggregate cannot hold "significant influence" or 20% or more of voting power including potential voting power therein. However, existing investors holding their investments prior to their jurisdiction being classified as FATF non-compliant will be allowed to hold/increase their investments.

Master Directions on Housing Finance Companies, 2021

In a culmination of its process to transition the regulation and supervision of Housing Finance Companies (HFCs) to itself, RBI has now issued its Master Directions, formalising and consolidating the existing regulatory requirements for HFCs. The Master Directions relate to prudential requirements around capital, liquidity and asset quality as also measures around corporate governance.

Foreign Portfolio Investors (FPI) investments in defaulted bonds

FPIs are now allowed to invest into defaulted bonds the same way as they invested in the security receipts issued by the ARCs, i.e. they are now exempted from the short-term limit and the minimum residual maturity requirement that usual apply to their bond investments.

Penalty Corner

RBI:

The (RBI) imposed a penalty of Rs. 2 Crores on **Bank of Maharashtra** for breaching, inter-alia, fraud classification and reporting requirements and guidelines on Concurrent Audit, disclosures on customer complaints, unreconciled balances on account of ATM transactions and on restructuring of MSME advances

SEBI:

Axis bank paid a sum of Rs. 41.4 Lakhs to settle its case with SEBI for delayed disclosures as required under SEBI (PIT Regulations) with respect to trading in shares of one of its promoter entities, United India Insurance Company Ltd.

Market Regulator SEBI imposed a fine of Rs. 1 Crore on the **National Stock Exchange (NSE)** for breaching the norms of "fair and equitable access" to all market participants in the case of co-locating brokers.

Residents permitted to remit to IFSCs in India under the Liberalised Remittance Scheme (LRS)

Residents are now permitted to make remittances to International Financial Services Centres (IFSCs) in the country in addition to the overseas remittances they could make under the Liberalised Remittance Scheme (LRS). This is intended to help deepen the financial markets in IFSCs and allow resident individuals to diversify their portfolio.

Stay tuned:

- RBI to come out with Paper on Regulatory Framework for lenders in the Microfinance Space
- RBI to set up 24x7 helpline for Digital Payment Services
- Guidelines on Outsourcing for Operators and Participants of Authorized Payment Systems
- Retail Investors to be allowed to Open Gilt Accounts with RBI
- New Regulatory Framework on Crypto-currencies and Official Digital Currency