



'An approval to undertake financial intermediation involves a grant of public policy and public utility privilege. Against this privilege is an expectation of a higher order of responsibility on individuals while in search of returns. Naturally, with this privilege comes a higher order of accountability'

-RBI Discussion Paper on Governance in Commercial Banks in India

Fresh guidelines on appointment of Directors, MDs, CEOs and constitution of Committees of the Board in Banks

On a Review of the Corporate governance framework in banks, RBI has capped the tenure of Whole time directors , MDs & CEOs to 15 years and the individual can be considered for reappointment after a minimum period of three years. Promoter / majority shareholder WTD, MD & CEO cannot hold the post beyond 12 years and further extension upto 15 years would be at the sole discretion of RBI subject to progress in dilution of their stake. Their upper age limit continues to be capped at 70 years. The guidelines covering composition of Board/Committees of the Board like ACB, Nominations and Remuneration committee, and RMCB with only NEDs/majority of NEDs, aims to improve the independence of these committees and nudge banks to effective succession planning for key positions.

External Commercial Borrowings (ECB) Policy - Relaxations announced

Borrowers receive some relief as the RBI announces relaxations on parking unutilised ECB proceeds. In the announced one-time measure, borrowers are allowed to place unutilised proceeds of ECB drawn down on or before March 1, 2020, in term deposits with AD-1 category banks in India prospectively, for an additional period upto March 1st 2022.

Norms for reimbursement of interest-on interest charged during pandemic related moratorium period

The RBI issued a circular directing all lending institutions to put in place a Board approved policy to reimburse/adjust any interest-on-interest charged to borrowers during the moratorium period. It further clarifies that the relief shall be applicable to all borrowers whether moratorium was partially, fully or not availed.

The methodology for calculation of the amount to be refunded for different facilities has since been finalised by the **Indian Banks Association (IBA)** in consultation with other industry participants/bodies.

RBI places a cap of 50% on dividend payout by banks for FY 2021

In a preemptive initiative to protect banks from the unexpected losses that could arise due to the surging second wave of Covid-19, the RBI partially modified its circular on payment of dividends. It allowed banks to pay upto 50% of the dividend amount as determined by the dividend payout ratio while continuing to meet the minimum regulatory capital requirements after dividend payment. It further emphasises on the responsible governance by the Board of Directors to consider the banks financial standing and adequacy of provisions while making a decision on the same.

Revised norms for appointment of bank auditors

The norms for appointment of bank auditors have been revised by RBI to strengthen their governance framework. The guidelines require banks to take RBI's prior approval for appointment / reappointment of auditors. The number of audit firms will be capped based on asset size. For entities having asset size of more than Rs 15000 crore, the statutory audit will be conducted jointly by a minimum of two audit firms. This is expected to prevent wide variation in asset classification and misleading account statements. Other measures include appointment of auditors for a continuous period of three years to protect their independence. SCA/SA will be held accountable for lapses/misstatements in the entity's financial statements.

RBI's supervisory action on Card Networks – American Express and Diners Club International Ltd

RBI's supervisory action against American Express Banking Corporation and Diners Club International is the first such action for non-compliance with its directive on Storage of Payment System data which requires all Payment System Providers to ensure that within a period of six months the entire data relating to payment systems operated by them is stored in a system only in India. RBI has restricted the entities from onboarding new customers on their card network from May, 2021. This decision is expected to have a greater impact on the business than a monetary penalty, similar to the restrictions imposed earlier on HDFC bank on launching of new digital products and onboarding of new customers for its credit card business, following repeated glitches on its technology platform over the last three years.

Penalty Corner

SEBI:

SEBI imposed a penalty of Rs 25 crores on **Yes Bank Ltd.**, Rs 1 crore on one of its officials and Rs 50 lakhs each on two others, based on an investigation into complaints received by it. The complaints pertained to the alleged mis-selling of AT-1 bonds of YB to retail investors stating that they were safer than its FDs and equity shares. SEBI held that YB through its employees had misrepresented facts to its customers inducing them to alter their investment positions from FDs to risky A1 Bonds and imposed the penalties as a deterrent.

SEBI imposed a penalty of Rupees 12 lakh on **CPR Capital Services** and Rs 6 lakhs on **PRB Securities Ltd** for multiple violations with respect to resorting to unfair trade practices on National Stock Exchange's co-location facility. By routinely connecting to the secondary server which is to be used in case of non-availability of data from the primary source, despite clear guidance from NSE, SEBI held that the companies had undermined the trading system set up to provide fair and equitable access to all brokers connected to it.

Constitution of the Regulations Review Authority (RRA) 2.0

RBI has set up the RRA under the Chairmanship of Mr Rajeshwar Rao, Deputy Governor with a tenure of one year from May 1, 2021, in a much needed move to review the existing regulations and compliance procedures with a view to rationalise them and make them more effective considering the changes in the banking system and regulations over the decades. It is expected to reduce the compliance burden of the regulated entities by simplifying procedures and reduce /rationalise reporting. The last time RBI had set up such an Authority was on 1st April 1999.

Stay tuned:

- ❖ Committee set up by RBI to review ARC regulations are expected to submit their report in three months
- ❖ Applicants line up for RBI's On-Tap Banking license – Awaiting approvals