Compliance Matters

India Regulatory Roundup

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"In this ever evolving and challenging environment, ultimately it is the operations of a financial entity in terms of its governance standards, business model, risk culture, and assurance functions that will decide how well it fares in the long run."

- M.K. Jain, Deputy Governor – RBI
Business Standard BFSI Summit 2021

Revised Format for furnishing Credit Information to Credit Information Companies

RBI has revised the Uniform Credit Reporting format for furnishing credit information to CICs by Credit Institutions(CIs) to make the reporting of Relationship data by CIs mandatory. Currently, the Uniform Credit Reporting Format has two Annexes; Annex-I contains two formats for credit reporting, viz., Consumer Bureau and Commercial Bureau, whereas Annex-II contains credit reporting format for Micro Finance Institution (MFI) segment. The Relationship Segment (RS) in the Commercial Bureau format inter-alia captures information on relationship fields of the corporations. The RS details are very important in establishing cross-linkages across the three modules, viz., Consumer, Commercial and MFI Bureaus, while providing comprehensive credit information of a borrower to CIs by CICs. As there is low level of RS data in the database of CICs, RBI has made its reporting mandatory for new loan accounts opened after July 1, 2022 while a phased approach has been laid down for legacy accounts.

Basel III Capital Regulations: RBI Clarifications

RBI has clarified that the "eligible amount" for purpose of issue of PDIs in foreign currency as per the regulations, would mean the higher of:(a) 1.5% of Risk Weighted Assets (RWAs) and (b) Total Additional Tier 1 capital as on March 31 of the previous financial year. Not more than 49% of the "eligible amount" as above can be issued in foreign currency and/or in rupee denominated bonds overseas.

Modalities for filing of placement memorandum through Merchant Banks

SEBI has mandated AIFs to file a placement memorandum with SEBI through registered merchant bankers prior to launching new schemes. Merchant Bankers will need to independently exercise due diligence to assess the integrity and adequacy of disclosures made and accordingly provide the AIF with a due diligence certificate. The details of the Merchant Banker must be included while filing draft memorandum at the time of filing draft placement

Prompt Corrective Action (PCA) Framework for SCBs

RBI has issued a revised framework for PCA where the key areas for monitoring would be Capital, Asset quality and Leverage. The key indicators to be tracked for these areas would be CRAR/Common Equity Tier 1 ratio/net NPA Ratio and Tier 1 leverage ratio respectively. Any breach of the risk thresholds prescribed for these areas by banks would result in invocation of PCA and trigger mandatory/discretionary corrective actions as required. Once a bank is placed under PCA, taking the bank out of PCA Framework and/or withdrawal of restrictions imposed under the PCA Framework will be considered, if no breaches in risk thresholds in any of the parameters are observed as per four continuous quarterly financial statements, one of which should be Audited Annual Financial Statement (subject to assessment by RBI); and based on Supervisory comfort of the RBI, including an assessment on sustainability of profitability of the bank.

Opening of Current Accounts by Banks – Need for Discipline

Based on feedback from IBA and other stakeholders, RBI has revised the guidelines on opening of current accounts. There is no restriction on opening of current accounts for borrowers having exposure of less than Rs. 5 crore to the banking system, while for those having exposure of Rs. 5 crore or more, such borrowers can maintain current account with any one of the banks with which it has CC/OD facility, provided that the bank has at least 10 percent of the exposure of the banking system to that borrower. Other lending banks may open only collection accounts subject to the condition that funds deposited in such collection accounts will be remitted within two working days of receiving such funds, to the CC/OD account maintained with the bank maintaining current accounts for the borrower.

Revised Regulatory Framework for NBFCs - Scale Based Regulation (SBR)

The Reserve Bank of India has issued an integrated regulatory framework for NBFCs that comprehensively addresses the different facets of regulation of NBFCs such as capital requirements, governance standards, prudential regulation, etc keeping in view their changing risk profile. The framework is aimed at providing a holistic view of the SBR structure, fresh guidelines being introduced and corresponding timelines. The regulatory structure for NBFCs will comprise four layers based on the size, activity and perceived riskiness of the NBFC and the regulations will be effective from October 2022 with a glide path to achieve other milestones like increase in Net Owned Funds to Rs. 10 crores for certain category of NBFCs, Common Equity capital Tier 1 of at least 9% for NBFC-Upper layer, IPO funding being restricted to Rs 1 crore for subscription to IPOs (w.e.f April 2022) etc.

Penalty Corner

RBI:

RBI imposed a monetary penalty of Rs. 1.95 Crore on **Standard Chartered Bank - India** for non-compliance with regulatory directions issued by the regulator including failure to credit the amount involved in unauthorized electronic transactions, not reporting cyber security incident within prescribed time frames, authorising direct sales agents to conduct KYC verification and failure to ensure integrity and quality of data submitted in CRILC.

RBI penalised **State Bank of India (SBI)** Rs. 1 Crore for non-compliance with the RBI's directions pertaining to Fraud Classification and Reporting by commercial banks and select FIs by delaying the reporting of fraud in a customer account that was under scrutiny by the regulator.

RBI imposed a penalty of Rs. 1 Crore on **Paytm Payments Bank** for furnishing factually incorrect information in their application for issue of final Certificate of Authorisation.

Western Union Financial Services Incorporated was imposed a penalty of Rs. 27.79 Lakhs for breach of the ceiling of 30 remittances per beneficiary in the financial years 2019 and 2020.

The Nainital Bank Ltd was penalized Rs. 56 Lakh by the RBI for non-compliance with regulatory directions regarding discrepancies in NPAs reported by the Bank and NPAs assessed during inspection resulting from failure to classify certain accounts as NPAs. The Bank also failed to disclose material discrepancies relating to asset classification and provisioning identified by RBI and to report frauds as per RBI's directions.

Value Free Transfer (VFT) of Government Securities - Guidelines

RBI has issued revised guidelines on VFT of Government Securities (GSecs) to further streamline the VFT process. VFT refers to transfer of securities from one SGL/CSGL to another SGL/CSGL account, without corresponding payment leg in the books of RBI. Besides listing the eligible VFT transactions, RBI has specified that permission for VFT for any other purpose may be granted on a case to case basis. Eligible VFTs and permitted VFTs can be initiated through the Core Banking System of RBI viz., e-Kuber. The VFTs undertaken should be subject to concurrent audit by SGL/CSGL holders on a 100% sampling basis with the auditor verifying that the transactions fall under eligible VFT transactions listed in the guidelines.