R S PATEL & CO.
CHARTERED ACCOUNTANTS

EVEN BANK'S BANK ON US

1. Provisioning for Standard Assets by UCBs under four-tiered regulatory framework (April 24th, 2023 (Circular no. RBI/2023-24/18 DOR.STR.REC.12/21.04.048/2023-24 dated April 24, 2023)

The current standard assets provisioning norms for UCBs are based on the earlier categorization of UCBs into Tier I and Tier II. With further categorization of the UCBs into four-tiered framework, RBI through this circular harmonize the provisioning norms for standard assets irrespective of their Tier in this revised framework. Accordingly, the standard asset provisioning norms applicable to Tier 1, Tier 2, Tier 3 and Tier 4 is as below:

Category of Standard Asset	Rate of Provisioning
Direct advances to Agriculture and SME sectors	0.25%
Commercial Real Estate (CRE) sector	1.00%
Commercial Real Estate-Residential Housing Sector (CRE-RH)	0.75%
All other loans and advances not included above	0.40%

Further, it was advised in the circular that the erstwhile Tier I UCBs shall increase the standard asset provision from 0.25% on the category 'All other loans and advances not included above' to 0.30% by March 31, 2024, to 0.35% by September 30, 2024 and to 0.40% by March 31, 2025.

Considering the increase in provision requirement, additional capital will be required by the bank.

2. 1.Amendments to the Master Direction (MD) on KYC, 2016 (RBI/2023-24/24 DOR.AML.REC.111/14.01.001/2023-24 dated April 28th 2023 and RBI/2023- 24/25 DOR.AML.REC.13/14.01.001/2023-24 May 04th 2023)

RBI decided to amend the Master Directions on KYC to incorporate the changes in the following areas, effectively requiring stringent compliances:

• Customer Due Diligence process and identification of Beneficial owner.

• Prevention of Money Laundering (Maintenance of Records) Rules, 2005

• Procedure for Implementation of Section 12A of the Weapons of Mass Destruction (WMD) and their Delivery Systems (Prohibition of Unlawful Activities) Act, 2005 (WMD Act, 2005)

• FATF Recommendations

• To update the instructions on Wire Transfer

• Definitions of the relevant terms used in the amended Wire Transfer added

3. Master Directions/Circulars issued during the quarter April to June 2023

RBI has consolidated all the instructions/guidelines issued till date on the master Directions/Circulars for below areas.

• Guarantees, Co-Acceptances & Letters of Credit – UCBs (RBI/2023-24/05 DoR.STR.REC.4/09.27.000/2023-24 dated 01st April, 2023)

• Classification, Valuation and Operation of Investment Portfolio of Primary (Urban) Co-operative Banks Directions, 2023 (RBI/2023-24/96 DOR.MRG.REC.01/00-00-011/2023-24 dated 01st April, 2023)

• Facility for Exchange of Notes and Coins (RBI/2023-24/97 DCM (NE) No.G-2/08.07.18/2023-24 dated 01st April, 2023 and updated May 15th, 2023)

• Counterfeit Notes, 2023 - Detection, Reporting and Monitoring (RBI/2023-24/98 DCM (FNVD)/G-1/16.01.05/2023-24 dated April 03rd, 2023)

• Penal Provisions in reporting of transactions/ balances at Currency Chests (RBI/2023-24/101 DCM (CC) No.G-4/03.35.01/2023-24 dated April 03rd, 2023)

• Scheme of Penalties for bank branches and Currency Chests for deficiency in rendering customer service to the members of public (RBI/2023-24/100
DCM (CC) No.G-3/03.44.01/2023-24 dated April 03rd, 2023)

• Framework of Incentives for Currency Distribution & Exchange Scheme for bank branches including currency chests based on performance in rendering customer service to the members of public (RBI/2023-24/99 DCM (CC) No.G-5/03.41.01/2023-24 dated April 03rd, 2023)

• Outsourcing of Information Technology Services (RBI/2023-24/102
DoS.CO.CSITEG/SEC.1/31.01.015/2023-24 dated April 10th, 2023)

• Housing Finance for UCBs (RBI/2023-24/15
DOR.CRE.REC.No.9/07.10.002/2023-24 dated April 11th, 2023)

• Prudential Norms on Capital Adequacy - Primary (Urban) Co-operative Banks (UCBs) (RBI/2023-24/17 DOR.CAP.REC.11/09.18.201/2023-24 dated April 20th, 2023)

• Income Recognition, Asset Classification, Provisioning and Other Related Matters – UCBs (RBI/2023-24/26 DOR.STR.REC.14/21.04.048/2023-24 dated May 08th, 2023)

Banks will be required to consider above referred directions/circulars only for relevant areas

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GOVERNMENT OF INDIA
MINISTRY OF MICRO, SMALL & MEDIUM ENTERPRISES

4. Formalisation of Informal Micro Enterprises on Udyam Assist Platform (RBI/2023-24/25 DOR.AML.REC.13/14.01.001/2023-24 dated 04th May, 2023)

Some of the highlights of this circular is given here:

• The Ministry of MSME, Government of India, launched the Udyam Assist Platform (UAP) to formalize Informal Micro Enterprises (IMEs).

• Designated Agencies, including RBI-regulated entities, assist in online registration on the UAP.

• A Gazette Notification specifies that UAP certificates for IMEs are equivalent to Udyam Registration Certificates for availing Priority Sector Lending (PSL) benefits.

• IMEs are defined as enterprises unable to register on the Udyam Registration Portal due to lack of mandatory documents, exempt from GST filing, with turnover as the defining criterion.

• An interface between UAP and Udyam Registration Portal enables IMEs to transition once they obtain required documents.

• IMEs with Udyam Assist Certificates are classified as Micro Enterprises under MSME for PSL purposes.

5. ₹2000 Denomination Banknotes – Withdrawal from Circulation; Will continue as Legal Tender (RBI/2023-24/32 DCM(Plg) No.S 236/10.27.00/2023-24 dated May 19th 2023 and RBI/2023-24/33 DCM(Plg) No.S-239/10.27.00/2023-24 dated May 22, 2023)

RBI has vide this circular withdrawn the Rs.2000 denomination from circulation, however it will continue to remain as legal tender. The banks has been given a plan of action for the following
a) Handling of existing stock and receipts
b) Facility for Deposit & Exchange
c) Replenishment of Stock of other denominations for exchange
d) Dissemination of Information
e) Instructions for this circular will be valid till September 30th, 2023.

6. Rationalization of Branch Authorisation Policy for Urban Co-operative Banks (UCBs) (RBI/2023-24/39 DOR.REG.No.19/07.01.000/2023-24 dated June 08th, 2023)

To rationalise the process of branch opening and to enable the UCBs to tap growth opportunities in the sector, RBI has through this circular decided to grant general permission for branch expansion in the approved area of operation to financially strong and well managed (FSWM) UCBs. Accordingly, UCBs should frame branch expansion policy and can open new branches upto 10 per cent of the number of full-fledged branches subject to maximum of five branches without need to take permission from RBI. There is also revised timelines for Annual business plan (ABP) under prior approval route in order to reduce the time taken for opening new branches.

7. Guidelines on Default Loss Guarantee (DLG) in Digital Lending (RBI/2023-24/41 DOR.CRE.REC.21/21.07.001/2023-24 dated June 08th , 2023)

It has been decided to permit arrangements between Regulated Entities (REs) and Lending Service Providers (LSPs) or between two REs involving default loss guarantee (DLG), commonly known as FLDG. Such arrangements subject to the guidelines laid down in the Annex to this circular. DLG arrangements conforming to these guidelines shall not be treated as 'synthetic securitisation' and/or shall also not attract the provisions of 'loan participation'.

8. Priority Sector Lending (PSL) targets / sub-targets and contribution against shortfall in achievement of PSL targets – Primary (Urban) Co-operative Banks (UCBs) - Extension of time (RBI/2023-24/42 DOR.CRE.REC.18/07.10.002/2023-24 dated June 08th, 2023)

PSL Targets have been extended. Now the PSL target path is 60% by 31/03/2024, 65% by 31/03/2025 and 75% by 31/03/2026. Also the Weaker section Sub-Target path now is 11.50% by 31/03/2024, 11.75% by 3/03/2025 and 12% by 31/03/2026. Further UCBs can now contribute to RIDF against their shortfall w.e.f. 31/03/2023 in place of earlier contribution required for shortfall in targets for FY 20-21 and FY 22-22.

Cooperative Connect
RBI Circular Synopsis

1. Master Circular – Management of Advances (RBI/2023-24/51 DOR.CRE.REC.No.27/07.10.002/2023-24 dated July 25th, 2023) This master circular consolidates all the guidelines issued between the earlier Master circular on Management of Advances dated 8th April, 2022. However, following are few of the important changes.

Addition/ Amendments observed	What does the change signify & banks need to do
5.1.2 (ii) Cases admitted with National Company Law Tribunal (NCLT)/National Company Law Appellate Tribunal (NCLAT) under the Insolvency and Bankruptcy Code, 2016 are also required to be reported to CICs under the suit-filed cases.	This is a new reporting requirement to CICs under the suit-filed cases which was earlier not required. The format will be as used currently, however the addition is to include those cases admitted under NCLT/NCLAT.
6.3 Compromise settlements and technical write-offs UCBs shall adhere to the instructions contained in the circular DOR.STR.REC.20/21.04.048/2023-24 dated June 8, 2023 regarding framework for compromise settlements and technical write-offs.	This para has been added in the circular in line with the issuance of the framework for compromise settlements and technical write offs.
9.10 Priority Sector UCBs shall be guided by instructions contained at paras 8.1, 15.1, 15.2, 16.1 (vi) of the Master Direction FIDD.CO.Plan.BC.5/04.09.01/2020-21 dated September 04, 2020, amended from time to time.	The change covers more comprehensive priority sector guidelines on loans given to SHGs / JLGs for agricultural and allied activities which would be considered as priority sector advance.

2. Master Directions – Priority Sector Lending (PSL) Targets and Classification (RBI/FIDD/2020-21/72 Master Directions FIDD.CO.Plan.BC.5/04.09.01/2020-21 updated on July 27th, 2023)

The master directions align with the changes done in the PSL from time to time. Major changes are the timelines for UCBs to comply with the PSL targets has been updated in this master direction as below:

<table>
<tr><td>Total Priority Sector</td><td>75 per cent of Adjusted Net Bank Credit (ANBC) or Credit Equivalent of Off-Balance Sheet Exposures (CEOBE), whichever is higher, with effect from FY2025-26. UCBs shall comply with the stipulated target as per the following milestones.
<table>
<tr><th>FY2019-20</th><th>FY2020-21</th><th>FY2021-22</th><th>FY2022-23</th><th>FY2023-24</th><th>FY2024-25</th><th>FY2025-26</th></tr>
<tr><td>40%</td><td>45%</td><td>50%</td><td>60%</td><td>60%</td><td>65%</td><td>75%</td></tr>
</table></td></tr>
<tr><td>Micro Enterprises</td><td>7.5 per cent of ANBC or CEOBE, whichever is higher</td></tr>
<tr><td>Advances to Weaker Sections</td><td>12 per cent of ANBC or CEOBE, whichever is higher. The revised targets for weaker sections will be implemented in a phased manner as indicated below:
<table>
<tr><th>FY2019-20</th><th>FY2020-21</th><th>FY2021-22</th><th>FY2022-23</th><th>FY2023-24</th><th>FY2024-25</th><th>FY2025-26</th></tr>
<tr><td>10.00%</td><td>11.00%</td><td>11.50%</td><td>11.50%</td><td>11.50%</td><td>11.75%</td><td>12.00%</td></tr>
</table></td></tr>
</table>

4. Reset of Floating Interest Rate on Equated Monthly Instalments (EMI) based Personal Loans (RBI/2023-24/55 DOR.MCS.REC.32/01.01.003/2023-24 dated August 18th, 2023)

In respect to EMI based floating rate personal loans, in the wake of rising interest rates, rise in the consumer grievances was observed related to increase in loan tenor and EMI amount without proper communication to the borrowers. Through this circular RBI advised banks to put in place appropriate policy framework meeting the requirements as outlined through this circular. The banks were instructed to extend the provisions of the guidelines to all the existing and new loans by December 31st, 2023.

5. Responsible Lending Conduct – Release of Movable / Immovable Property Documents on Repayment/ Settlement of Personall Loans (RBI/2023-24/60 DoR.MCS.REC.38/01.01.001/2023-24 dated 13th September, 2023)

RBI has observed that the banks were following divergent practices in release of movable/immovable property documents on repayment/settlement of Personal loans leading to customer grievances and disputes. RBI vide this circular has given directives to the banks to follow a common practice and promote responsible lending conduct. The key takeaway from this circular are:

i. Release of Property Documents: Banks (Regulated Entities) must release all original movable and immovable property documents within 30 days after full repayment or settlement of the loan account.

ii. Borrower's Choice: Borrowers have the option to collect these documents from the bank branch where the loan was serviced or any other office of the bank, based on their preference.

iii. Loan Sanction Letters: The timeline and place for returning property documents will be specified in the loan sanction letters issued on or after the effective date.

iv. Procedure for Legal Heirs: Banks should have a well-defined procedure for the return of property documents to legal heirs in the event of the borrower's demise. This procedure must be published on the bank's website for customer information.

v. Compensation for Delay: If the bank delays in releasing the property documents or fails to file charge satisfaction forms with relevant registries within 30 days after repayment, they must inform the borrower of the reasons for the delay. If the delay is the bank's fault, it must compensate the borrower at a rate of ₹5,000 per day of delay.

vi. Loss or Damage to Documents: In cases of loss or damage to property documents, the bank must assist the borrower in obtaining duplicate or certified copies and cover associated costs. Compensation for delay will be applicable, with an additional 30 days for the bank to complete the procedure, after which the delayed period penalty will be calculated.

vii. Additional Compensation: The compensation specified in these directions is separate from any compensation the borrower may be entitled to under applicable laws.

viii. Applicability: These directions apply to all cases where the release of original movable or immovable property documents is due on or after December 1, 2023.

Title: Unlocking Value Through One-Time Settlements in the Financial Sector
(RBI Framework for compromise settlements & Technical Write-offs)
(Ref: RBI/2023-24/40 DOR.STR.REC.20/21.04.048/2023-24 dated June 08th, 2023)

In today's dynamic financial landscape, banks and other financial institutions are continually exploring innovative approaches to manage non-performing assets (NPAs) and enhance their asset quality. One such approach is the implementation of a Board-approved one-time settlement framework, which aims to strike a balance between recovering dues and minimizing financial losses.

Understanding the One-Time Settlement Framework
The one-time settlement framework is a comprehensive policy adopted by Banks and Financial Institutions, for dealing with non-performing loans. The key features of this framework are:

1. Definition of Compromise Settlement and Technical Write-Offs
Under this framework, a compromise settlement is an agreed arrangement with the borrower that involves a negotiated payment, potentially with a partial waiver of claims. In contrast, technical write-offs refer to accounting adjustments made without waiving the claims, solely for accounting purposes.

2. Board-Approved Policies
Banks are required to have Board-approved policies that detail the process for compromise settlements and technical write-offs. These policies include conditions precedent, such as minimum aging of loans and collateral valuation, and provide a graded framework for examining staff accountability in such cases.

3. Maximizing Recovery with Prudent Sacrifice

The policy outlines permissible sacrifices for different types of exposures, taking into account the realizable value of security or collateral. The objective is to maximize recovery from distressed borrowers while minimizing expenses, aligning the interests of both – the bank and the borrower.

4. Treatment of Future Contingent Realizations

Compromise settlements and technical write-offs should not prejudice any mutually agreed contractual provisions between the Bank and the borrower related to future contingent realizations or recoveries. However, these claims cannot be recognized on the Bank's balance sheet until actual realization.

5. Delegation of Power

The delegation of power for approval of compromise settlements and technical write-offs is a crucial aspect of this framework:

- For compromise settlements, the approval authority must be at least one level higher in hierarchy than the authority sanctioning the credit or investment exposure.
- Proposals for compromise settlements for debtors classified as fraud or willful defaulters require Board approval.

6. Prudential Treatment and Reporting

Compromise settlements with a time for payment exceeding three months are treated as restructurings, subject to prudential requirements. A robust reporting mechanism should be in place to track compromise settlements and technical write-offs, with higher authorities being informed quarterly.

7. Oversight by the Board

The Board plays a crucial role in ensuring transparency and accountability. It mandates a suitable reporting format that covers trends in compromise settlements, recoveries in technically written-off accounts, and the handling of different account categories.

8. Cooling Period and Legal Provisions

There is a cooling period, determined by Board-approved policies, before the Bank can assume fresh exposures to borrowers who have undergone compromise settlements. This period varies but must be at least 12 months for exposures other than farm credit. Moreover, banks can engage in compromise settlements and write-offs for accounts categorized as willful defaulters or fraud, without prejudicing ongoing criminal proceedings.

Conclusion

The one-time settlement framework is a valuable tool for regulated entities to manage NPAs effectively while safeguarding their interests. It promotes transparency, accountability, and prudent risk management