

Summary Information on few Compounding Orders issued after 1st March 2020

Sr. No.	Party Name	Nature of Contravention	Date of Order	Compounding Fees (Rs.)
1.	Vivek Khemnani	Contraventions under Regulation 20A read with para D(1) of Schedule V of FEMA 120 for delay in filing of Form ODI Part I beyond 30 days, para A(6) of Schedule V for setting up JV/WOS with step down subsidiary, para D(3) of Schedule V read with Regulation 15(iii) delay in filing of Form APR.	27-12-2021	4,69,708
2.	Bliss GVS Pharma Ltd.	Contravention under Regulation 15(i) of FEMA 120 for delay in submission of share certificate with RBI beyond prescribed period of 6 months.	14-12-2021	30,000
3.	Suntect Production India Pvt. Ltd.	Contravention under para 2(2) of Schedule I of FEMA 20R for issue of capital instruments beyond prescribed period of 60 days from date of receipt of consideration.	31-12-2021	71,886

1. RBI NOTIFICATION NO. RBI/2021-22/146 CO.DPSS.POLC.No.S1264/02-14-003/2021-2022 DATED JANUARY 03, 2022

Framework for Facilitating Small Value Digital Payments in Offline Mode

- Reserve Bank had, vide circular dated August 06, 2020, permitted a pilot scheme to encourage technological innovations that enable small value digital transactions in offline mode. It was stated therein that the decision on formalising such a system would be based on the experience gained.

- Pilot testing was undertaken by some entities during the period from September 2020 to July 2021. With encouraging feedback from the pilots, it was announced in the Statement on Developmental and Regulatory policies dated October 08, 2021, that a framework for carrying out small value digital payments in offline mode across the country would be introduced.
- Accordingly, the framework to enable small value digital payments in offline mode using cards, wallets, mobile devices, etc., is detailed in Annex. Authorised Payment System Operators (PSOs) and Payment System Participants (PSPs) – Acquirers and Issuers (banks and non-banks) - shall ensure compliance with all the applicable instructions.
- This directive is issued under Section 10 (2) read with Section 18 of Payment and Settlement Systems Act, 2007 (Act 51 of 2007) and shall come into effect immediately.

Annex

CO.DPSS.POLC.No.S1264/02-14-003/2021-2022 dated January 03, 2022

An offline payment means a transaction which does not require internet or telecom connectivity to take effect. Authorised Payment System Operators (PSOs) and Payment System Participants (PSPs) – Acquirers and Issuers (banks and non-banks) – desirous to provide / enable payment solutions that facilitate small value digital payments in offline mode shall comply with the following requirements:

- Offline payments may be made using any channel or instrument like cards, wallets, mobile devices, etc.
- Offline payments shall be made in proximity (face to face) mode only.
- Offline payment transactions may be offered without Additional Factor of Authentication (AFA).
- Payment instruments shall be enabled for offline transactions based on explicit consent of the customer. Such transactions using cards shall be allowed without a requirement to switch on the contactless transaction channel, in relaxation of terms of DPSS circular no. DPSS.CO.PD no.1343/02.14.003/2019-20 dated January 15, 2020 on Enhancing Security of Card Transactions.
- The upper limit of an offline payment transaction shall be ₹ 200. The total limit for offline transactions on a payment instrument shall be ₹ 2,000 at any point in time. Replenishment of used limit shall be allowed only in online mode with AFA.
- The issuer shall send transaction alerts to users as soon as transaction details are received. There is no compulsion to send alert for each transaction; however, details of each transaction shall be adequately conveyed.
- The acquirer shall incur all liabilities arising out of technical or transaction security issues at merchant's end.
- Offline payments shall be covered under the provisions of RBI's limited customer liability circulars (as amended from time to time) - DBR.No.Leg.BC.78/09.07.005/2017-18 dated July 06, 2017; DCBR.BPD.(PCB/RCB).Cir.No.06/12.05.001/2017-18 dated December 14, 2017 and para 17 of Master Direction on Prepaid Payment Instruments dated August 27, 2021.
- The customers shall have recourse to the Reserve Bank – Integrated Ombudsman Scheme, as applicable, for grievance redressal.
- Reserve Bank retains the right to stop or modify the operations of any such payment solution that enables small value digital payments in offline mode.

2. RBI NOTIFICATION NO. RBI/2021-22/149DOR.CRE.REC.No.77/21.04.172/2021-22 DATED JANUARY 05, 2022

Master Circular on Bank Finance to Non-Banking Financial Companies (NBFCs)

Purpose

To lay down the Reserve Bank of India's regulatory policy regarding financing of NBFCs by banks.

Classification

A statutory guideline issued under Section 35A of Banking Regulation Act, 1949.

Previous guidelines

Master Circular DBR.BP.BC.No.5/21.04.172/2015-16 dated July 1, 2015 on 'Bank Finance to Non-Banking Financial Companies (NBFCs)'.

Application

To all Scheduled Commercial Banks (excluding Regional Rural Banks).

1. Introduction

Reserve Bank of India has been regulating the financial activities of the Non-Banking Financial Companies under the provisions of Chapter III B of the Reserve Bank of India Act, 1934. With the amendment of the Reserve Bank of India Act, 1934 in January 1997, in terms of Section 45 IA of the said Act, and amendment of the National Housing Bank Act, 1987 in August 2019, in terms of Section 29 A of the National Housing Bank Act, 1987, all Non-Banking Financial Companies including Housing Finance Companies have to be mandatorily registered with the Reserve Bank of India.

1.1 Terminology

- a. 'NBFCs' means the Non-Banking Financial Companies registered with the Reserve Bank of India, which shall also include Housing Finance Company (HFC) registered under Section 29 A of the National Housing Bank Act, 1987.
- b. 'Current investments' means the investments classified in the balance sheet of the borrower as 'current assets' and are intended to be held for less than one year.
- c. 'Long term investments' means all types of investments other than that classified as 'current assets'.
- d. 'Unsecured loans' means the loans not secured by any tangible asset.

1.2 Background

The credit related matters of banks have been progressively deregulated by Reserve Bank of India. Consistent with the policy of bestowing greater operational freedom to banks in the matter of credit dispensation and in the context of mandatory registration of NBFCs with the Reserve Bank, most of the aspects relating to financing of NBFCs by banks have also been deregulated. However, in view of the sensitivities attached to financing of certain types of activities undertaken by NBFCs, restrictions on financing of such activities continue to be in force.

2. Bank Finance to NBFCs registered with RBI

2.1 The ceiling on bank credit linked to Net Owned Fund (NOF) of NBFCs has been withdrawn in respect of all NBFCs which are statutorily registered with RBI and are engaged in principal business of asset financing, loan, factoring and investment activities. Accordingly, banks may extend need based working capital facilities as well as term loans to all NBFCs registered with RBI and engaged in infrastructure financing, equipment leasing, hire-purchase, loan, factoring and investment activities subject to provisions of para 8 of these guidelines.

2.2 In the light of the experience gained by NBFCs in financing second hand assets, banks may also extend finance to NBFCs against second hand assets financed by them.

2.3 Banks may formulate suitable loan policy with the approval of their Boards of Directors within the prudential guidelines and exposure norms prescribed by the Reserve Bank to extend various kinds of credit facilities to NBFCs subject to the condition that the activities indicated in paragraphs 4 and 6 are not financed by them.

3. Bank Finance to NBFCs not requiring Registration¹

In terms of "Master Direction - Exemptions from the provisions of RBI Act, 1934" dated August 25, 2016, few categories of non-banking financial companies are exempted from certain provisions of the Reserve Bank of India Act, 1934 (the RBI Act, 1934), including the need for registration with the Reserve Bank. For such NBFCs not needing registration with the Reserve Bank, banks may take their credit decisions on the basis of usual factors like the purpose of credit, nature and quality of underlying assets, repayment capacity of borrowers as also risk perception, etc.

¹ While financing NBFCs, which do not require registration with RBI, banks should also refer to the guidelines / notifications issued in this regard from time to time by the Ministry of Corporate Affairs, Government of India.

4. Activities not eligible for Bank Credit

4.1 The following activities undertaken by NBFCs, are not eligible for bank credit:

- (i) Bills discounted / rediscounted by NBFCs, except for rediscounting of bills discounted by NBFCs arising from sale of -
 - (a) commercial vehicles (including light commercial vehicles), and
 - (b) two wheeler and three wheeler vehicles, subject to the following conditions :
 - the bills should have been drawn by the manufacturer on dealers only;
 - the bills should represent genuine sale transactions as may be ascertained from the chassis / engine number; and

- before rediscounting the bills, banks should satisfy themselves about the bona fides and track record of NBFCs which have discounted the bills.
- (ii) Investments of NBFCs both of current and long-term nature, in any company / entity by way of shares, debentures, etc. However, Stock Broking Companies may be provided need-based credit against shares and debentures held by them as stock-in-trade.
- (iii) Unsecured loans / inter-corporate deposits by NBFCs to / in any company.
- (iv) All types of loans and advances by NBFCs to their subsidiaries, group companies / entities.
- (v) Finance to NBFCs for further lending to individuals for subscribing to Initial Public Offerings (IPOs) and for purchase of shares from secondary market.

4.2 Leased and Sub-Leased Assets

As banks can extend financial assistance to equipment leasing companies, they should not enter into lease agreements departmentally with such companies as well as other Non-Banking Financial Companies engaged in equipment leasing.

5. Bank Finance to Factoring Companies

Notwithstanding the restrictions mentioned at Paragraph 4.1 (i) and 4.1 (iv) above, banks can extend financial assistance to support the factoring business of Factoring Companies, which comply with the following criteria:

- (a) The companies qualify as factoring companies and carry out their business under the provisions of the Factoring Regulation Act, 2011 and Notifications issued by the Reserve Bank in this regard from time to time.
- (b) They derive at least 50 per cent of their income from factoring activity.
- (c) The receivables purchased / financed, irrespective of whether on 'with recourse' or 'without recourse' basis, form at least 50 per cent of the assets of the Factoring Company.
- (d) The assets / income referred to above would not include the assets / income relating to any bill discounting facility extended by the Factoring Company.
- (e) The financial assistance extended by the Factoring Companies is secured by hypothecation or assignment of receivables in their favour.

6. Other Prohibitions on Bank Finance to NBFCs

6.1 Bridge loans / interim finance

Banks should not grant bridge loans of any nature, or interim finance against capital / debenture issues and / or in the form of loans of a bridging nature pending raising of long-term funds from the market by way of capital, deposits, etc. to all categories of Non-Banking Financial Companies. Banks should strictly follow these instructions and ensure that they are not circumvented in any manner whatsoever by purport and / or intent by sanction of credit under a different nomenclature like unsecured negotiable notes, floating rate interest bonds, etc., as also short-term loans, the repayment of which is proposed / expected to be made out of funds to be or likely to be mobilised from external / other sources and not out of the surplus generated by the use of the asset(s).

6.2 Advances against collateral security of shares to NBFCs

Shares and debentures cannot be accepted as collateral securities for secured loans granted to NBFC borrowers for any purpose.

6.3 Restriction on guarantees for placement of funds with NBFCs

Banks should not execute guarantees covering inter-company deposits / loans thereby guaranteeing refund of deposits / loans accepted by NBFCs / firms from other NBFCs / firms. The restriction would cover all types of deposits / loans irrespective of their source, including deposits / loans received by NBFCs from trusts and other institutions. Guarantees should not be issued for the purpose of indirectly enabling the placement of deposits with NBFCs. However, banks are permitted to provide partial credit enhancement (PCE) to bonds issued by NBFC-ND-SIs and Housing Finance Companies (HFCs) as per guidelines contained at para 2.4 of the Master Circular on Guarantees and co-acceptances dated November 09, 2021, as updated from time to time.

7. Prudential ceilings for exposure of banks to NBFCs

- 7.1 The definition and method of computation of exposure would be as prescribed in the circular on Large Exposures Framework dated June 03, 2019 and amendments made from time to time.

- 7.2 Banks' exposures to a single NBFC (excluding gold loan companies) will be restricted to 20 percent of their eligible capital base (Tier I capital). However, based on the risk perception, more stringent exposure limits in respect of certain categories of NBFCs may be considered by banks. Banks' exposures to a group of connected NBFCs or group of connected counterparties having NBFCs in the group will be restricted to 25 percent of their Tier I Capital as detailed in circular on Large Exposures Framework dated June 03, 2019 read with circular on Large Exposures Framework dated September 12, 2019.
- 7.3 The exposure of a bank to a single NBFC which is predominantly engaged in lending against collateral of gold jewellery (i.e. such loans comprising 50 per cent or more of their financial assets), shall not exceed 7.5 per cent of the bank's capital funds (Tier I plus Tier II Capital). However, this exposure ceiling may go up by 5 per cent, i.e., up to 12.5 per cent of banks' capital funds if the additional exposure is on account of funds on-lent by such NBFCs to the infrastructure sector as detailed in circular on Bank Finance to NBFCs Predominantly Engaged in lending against Gold dated May 18, 2012.
- 7.4 Banks may also consider fixing internal limits for their aggregate exposure to all NBFCs put together.
- 7.5 Banks should have an internal sub-limit on their aggregate exposures to all NBFCs, having gold loans to the extent of 50 per cent or more of their total financial assets, taken together. This sub-limit should be within the internal limit fixed by the banks for their aggregate exposure to all NBFCs put together as prescribed in paragraph 7.4 above.
- 7.6 Infusion of eligible capital funds after the published balance sheet date may also be taken into account for the purpose of computing exposure ceiling. Banks should obtain an external auditor's certificate on completion of the augmentation of capital and submit the same to the Reserve Bank of India (Department of Supervision) before reckoning the additions to capital funds
- 7.7. Banks shall adhere to the intra-group limits in accordance with Guidelines on Management of Intra-Group Transactions and Exposures dated February 11, 2014.
8. Restrictions regarding investments made by banks in securities / instruments issued by NBFCs
- 8.1 Banks should not invest in Zero Coupon Bonds (ZCBs) issued by NBFCs unless the issuer NBFC builds up sinking fund for all accrued interest and keeps it invested in liquid investments / securities (Government bonds).
- 8.2 Banks are permitted to also invest in Non-Convertible Debentures (NCDs) with original or initial maturity up to one year issued by NBFCs. However, while investing in such instruments banks should be guided by the extant prudential guidelines in force, ensure that the issuer has disclosed the purpose for which the NCDs are being issued in the disclosure document and such purposes are eligible for bank finance in terms of instructions given in the preceding paragraphs.

3. RBI NOTIFICATION NO. RBI/2021-22/151 DOR.No.PRD.LRG.79/21.04.098/2021-22 DATED JANUARY 06, 2022

Basel III Framework on Liquidity Standards – Liquidity Coverage Ratio (LCR), Liquidity Risk Monitoring Tools and LCR Disclosure Standards and Net Stable Funding ratio – Small Business Customers

1. Please refer to the following instructions:

- i. Circular DBOD.BP.BC.No.120/21.04.098/2013-14 dated June 09, 2014 on 'Basel III Framework on Liquidity Standards – Liquidity Coverage Ratio (LCR), Liquidity Risk Monitoring Tools and LCR Disclosure Standards';
 - ii. Circular DBR.BP.BC.No.106/21.04.098/2017-18 dated May 17, 2018 on 'Standards – Net Stable Funding Ratio (NSFR) – Final Guidelines';
 - iii. Circular DBR.No.BP.BC.80/21.06.201/2014-15 dated March 31, 2015 on 'Prudential Guidelines on Capital Adequacy and Liquidity Standards – Amendments'; and,
 - iv. Circular DOR.No.BP.BC.23/21.06.201/2020-21 dated October 12, 2020 on 'Regulatory Retail Portfolio – Revised Limit for Risk Weight'.
2. With the objective to better align our guidelines with the BCBS standard and enable banks to manage liquidity risk more effectively, it has been decided to increase the threshold limit for deposits and other extensions of funds made by non-financial Small Business Customers from ₹ 5 crore to ₹ 7.5 crore for the purpose of maintenance of Liquidity Coverage Ratio (LCR).
 3. The above modification is also applicable to deposits and other extensions of funds received from Small Business Customers referred to in the circular DBR.BP.BC.No.106/21.04.098/2017-18 dated May 17, 2018 on 'Basel III Framework on Liquidity Standards – Net Stable Funding Ratio (NSFR) – Final Guidelines'.

4. The revised paragraphs after incorporating the above changes in the relevant circulars is given in Annex. Applicability
5. This circular is applicable to all Commercial Banks other than Regional Rural Banks, Local Area Banks and Payments Banks.
6. These instructions come into effect from the date of the circular.

ANNEX

Sr. No.	Original RBI Reference Paragraphs	Existing Text in RBI Circulars	Revised Text
1	<p>Explanatory Note (v) to BLR-1) of circular DBOD.BP.BC.No.120/21.04.09 8/2013-14 dated June 09, 2014 amended vide circular DBR.No.BP.BC.80/21.06.201/2 014-15 dated March 31, 2015</p>	<p>(v) Small Business Customers: This category consists of deposits and other extensions of funds made by non-financial small business customers, as defined in para 5.9.3 (i) of RBI Master Circular on Basel III Capital Regulations dated July 1, 2013, that are managed as retail exposures and are generally considered as having similar liquidity risk characteristics to retail accounts provided total aggregated funding from any such Small Business Customer is upto Rs.5 crore (on a consolidated basis where applicable).</p> <p>"Aggregated funding" means the gross amount (i.e. not netting any form of credit extended to the legal entity) of all forms of funding (e.g. deposits or debt securities or similar derivative exposure for which the counterparty is known to be a small business customer). Notwithstanding the definition of small business customer as defined in para 5.9.3 (i) of RBI Master Circular on Basel III Capital Regulations dated July 1, 2013, a bank may include a deposit in this category provided that the total aggregate funding raised from the customer is upto Rs.5 crore (on an aggregate basis where applicable) and the deposit is managed as a retail deposit. This means that the bank treats such deposits in its internal risk management systems consistently over time and in the same manner as other retail deposits, and that the deposits are not individually managed in a way comparable to larger corporate deposits.</p>	<p>(v) Small Business Customers: This category consists of deposits and other extensions of funds made by non-financial small business customers, as defined in para 5.9.3 (i) of RBI Master Circular on Basel III Capital Regulations dated July 1, 2015, that are managed as retail exposures and are generally considered as having similar liquidity risk characteristics to retail accounts provided total aggregated funding from any such Small Business Customer is upto ₹ 7.5 crore (on a consolidated basis where applicable).</p> <p>"Aggregated funding" means the gross amount (i.e. not netting any form of credit extended to the legal entity) of all forms of funding (e.g. deposits or debt securities or similar derivative exposure for which the counterparty is known to be a small business customer). Notwithstanding the definition of small business customer as defined in para 5.9.3 (i) of RBI Master Circular on Basel III Capital Regulations dated July 1, 2015, a bank may include a deposit in this category provided that the total aggregate funding raised from the customer is upto ₹ 7.5 crore (on an aggregate basis where applicable) and the deposit is managed as a retail deposit. This means that the bank treats such deposits in its internal risk management systems consistently over time and in the same manner as other retail deposits, and that the deposits are not individually managed in a way comparable to larger corporate deposits.</p>
2	<p>Paragraph 7.4 of our circular DBR.BP.BC.No.106/21.04.09 8/2017-18 dated May 17, 2018 on Net Stable Funding Ratio</p>	<p>Liabilities receiving a 90% ASF factor comprise "less stable" (as defined in the 'Explanatory Notes' to BLR-1 in Circular on LCR dated June 9, 2014) non-maturity (demand) deposits and/or term deposits with residual maturities of less than one year provided by retail and small business customers as defined in the 'Explanatory Note' to BLR-1 of Circular dated June 9, 2014 and modified vide circular dated March 31, 2015.</p>	<p>Liabilities receiving a 90% ASF factor comprise "less stable" (as defined in the 'Explanatory Notes' to BLR-1 in Circular on LCR dated June 9, 2014) non-maturity (demand) deposits and/or term deposits with residual maturities of less than one year provided by retail and small business customers as defined in the 'Explanatory Note' to BLR-1 of Circular dated June 9, 2014 and modified vide</p>

			<p>circulars DBR.No.BP.BC.80/21.06.20 1/2014-15 dated March 31, 2015 and DOR.No.PRD.LRG.79/21.04 .098/2021-22 dated January 06, 2022</p>
--	--	--	--