

Regulatory Updates

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April 30, 2024: Guidance Note on Operational Risk Management and Operational Resilience

Summary

This circular is applicable to all the Commercial banks, All Primary (Urban) Co-operative Banks/State Co-operative Banks/Central Co-operative Banks, All All-India Financial Institutions and All NBFCs including Housing Finance Companies. Risks involved in the operation of all the regulated entities can impact the entire ecosystem such as viability of the regulated entity, the customer base, market participants which can lead to financial instability. RBI aims to promote and enhance the operational resilience of the regulated entities.

Highlight

1. Operational Risk Management Framework has been built on 3 pillars.
 - a. Prepare and protect
 - b. Build resilience
 - c. Learn and adapt
2. Board of directors and should establish proper risk management culture which needs to be implemented by the senior management.
3. Operation Risk Management Framework needs to be reviewed periodically by the Board of Directors. If needed this needs to be improved.
4. Operational risks need to be identified early across all the products, processes, and activities. These risks need to be mitigated after through assessment.
5. There should be a proper feedback loop through which the Operational Risk Management Framework will improve to sustain any disruptions.

Insights

Implementing a robust Operational Risk Management Framework (ORMF) is essential for organizations to bolster their operational resilience. By having such a framework in place, entities can effectively identify, assess, mitigate, and monitor operational risks that may arise from various internal or external factors. Entities can proactively enhance their operational resilience, safeguarding their ability to deliver critical services or products even in challenging circumstances.

Further details can be found on the RBI website:

<https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12679&Mode=0>

April 29, 2024: Fair Practices Code for Lenders—Charging of Interest

Summary

This circular is applicable to all commercial banks except Payment Bank, All Primary (Urban) Co-operative Bank / State Co-operative Banks / District Central Co-operative Banks, All NBFCs. Fair Practices Code (FPC) issued to Regulated Entities aims to ensure fairness and transparency in charging of interest by the lenders. Fair Practices Code allows regulated entities some flexibility in determining their loan pricing policies. All the REs need to review the practices followed with respect to mode of disbursement of loans, application of interest charges and other charges. If required, REs need to do necessary system level changes.

Further details can be found on the RBI website:

<https://website.rbi.org.in/web/rbi/-/notifications/fair-practices-code-for-lenders-charging-of-interest>

April 26, 2024: Limits for investment in debt and sale of Credit Default Swaps by Foreign Portfolio Investors (FPIs)

Summary

The circular issued by the Reserve Bank of India outlines the investment limits for Foreign Portfolio Investors (FPIs) in government securities, state government securities, and corporate bonds for the financial year 2024-25. It specifies that the limits for FPI investment in government securities (g-secs), state government securities (SGSs), and corporate bonds shall remain unchanged at 6%, 2%, and 15% respectively, of the outstanding stocks of securities for 2024-25. The circular also details the allocation of incremental changes in the g-sec limit between the 'General' and 'Long-term' sub-categories, retaining it at 50:50 for 2024-25. Additionally, an additional limit of

₹2,54,500 crore is set out for Credit Default Swaps sold by FPIs in relation to the outstanding stock of corporate bonds for the financial year 2024-25.

Insights

The circular summarizes the investment limits for FPIs in government securities, state government securities, and corporate bonds for 2024-25.

Table 1: Investment limits for 2024-25						
	all figures in ₹ Crore					
	G-Sec General	G-Sec Long Term	SGS General	SGS Long Term	Corporate Bonds	Total Debt
Current FPI limits	2,67,890	1,36,890	92,828	7,100	6,67,871	11,72,578
Revised limit for the HY Apr 2024-Sept 2024	2,68,437	1,37,437	1,05,290	7,100	7,15,687	12,33,951
Revised limit for the HY Oct 2024-Mar 2025	2,68,984	1,37,984	1,17,752	7,100	7,63,503	12,95,322

Further details can be found in the RBI press release:

<https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12675&Mode=0>

April 25, 2024: Voluntary transition of Small Finance Banks to Universal Banks

Summary

This circular is applicable to all the Small Finance Banks. Conversion of Small Finance Banks (SFB) to Universal Bank is subject to certain conditions; SFB's minimum paid-up capital or net worth requirements applicable to Universal Banks, maintaining a satisfactory track record of performance as an SFB for a minimum period of five years and due diligence exercises conducted by RBI.

This circular shall come into immediate effect.

Further details can be found on the RBI website:

<https://website.rbi.org.in/web/rbi/-/notifications/voluntary-transition-of-small-finance-banks-to-universal-banks>

April 25, 2024: Master Circular—Bank Finance to Non-Banking Financial Companies (NBFCs)

Summary

This master circular is applicable to all the Scheduled commercial bank, excluding Regional rural bank. RBI is giving operational freedom to banks for credit related matters. However due to the sensitivities associated with financing certain types of activities undertaken by NBFCs, RBI put restrictions on financing such activities.

1. **Bank finance to NBFC registered with RBI**

Banks are allowed to extend need-based working capital facilities as well as term loans to all Non-Banking Financial Companies (NBFCs) registered with the Reserve Bank of India (RBI) which are engaged in various activities such as infrastructure financing, equipment leasing, hire-purchase, loan, factoring, and investment activities.

2. **Bank Finance to NBFCs not requiring Registration**

Banks can take the credit decision to NBFCs, which are not registered with RBI, based on purpose of credit, quality of underlying assets, repayment capacity of NBFC.

3. **Activities not eligible for Bank credit**

Following activities of NBFCs are not eligible for bank credit.

- a. Bills discounted / rediscounted by NBFCs. Only exception is rediscounting of bills discounted by NBFCs arising from sale of
 - Commercial vehicles
 - Two-wheeler and three-wheeler vehicles subjected to following conditions
 - Bills should have been drawn by manufacturers or deals
 - Bills should be for the genuine sale transaction
 - Investment of NBFC in some other entity through shares or debenture.
 - Unsecured loans to any company
 - Inter-corporate deposit made by NBFC in any company
 - Loan and advance to subsidiaries or group companies
 - Lending offered to individuals for subscription of IPOs and share purchase from secondary market

4. Banks can provide credit to equipment leasing companies; however banks can't enter into leasing agreement these companies or NBFCs engaged in equipment leasing.
5. NBFC-Factor should satisfies the following criteria to be able to get finance from Banks.
 - The company should qualify as factoring company as per Factoring Regulation Act, 2011
 - The credit extended by Factoring companies should be secured by hypothecation or receivables in their favor.
 - At least 50 percent of the income should come from factoring activity.
 - Receivable purchased or financed should be at least 50 percent of the assets
6. Banks shouldn't provide any kind of bridge loans to NBFCs.
7. Banks can't grant secured loans to NBFCs against the shares or debentures.

Further details can be found on the RBI website:

<https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12670&Mode=0#AP>

April 25, 2024: Unauthorized foreign exchange transactions

Summary

This notification is applicable to all the Authorized Dealer Category – I Banks. RBI observed instances of unauthorized entities through local agents, who have open account at different banks, provide foreign exchange (forex) trading facilities to Indian residents. All Authorized Dealer Category-I banks should be vigilant to prevent these misuse of banking channels.

Highlight

1. Foreign exchange or foreign security deal should be done only with the Authorized person or through the authorized entity.
2. A person should enter into foreign exchange derivative contract only with the authorized dealer or on recognized exchanges.
3. Entity should get prior authorization from RBI to operate Electronic Trading Platform (ETP).

Further details can be found on the RBI website:

<https://website.rbi.org.in/web/rbi/-/notifications/unauthorised-foreign-exchange-transactions>

April 25, 2024: Foreign Exchange Management (Foreign Currency Accounts by a person resident in India) (Amendment) Regulations, 2024

Summary

As per Foreign Exchange Management regulation; the funds raised, which are pending for utilization or repatriation to India, can be held with a bank outside India in foreign currency. The funds raised should be through External Commercial Borrowings or American Depositary Receipts (ADRs) or Global Depositary Receipts (GDRs) or listing of equity shares of Indian companies in international exchange.

Further details can be found on the RBI website:

<https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12674&Mode=0>

April 25, 2024: Foreign Exchange Management (Mode of Payment and Reporting of Non-Debt Instruments) (Amendment) Regulations, 2024

Summary

When investors purchase or subscribe to equity shares of an Indian company that is listed on an international exchange, the proceeds from such transactions will be remitted to bank accounts in India or deposited into a foreign currency account maintained by the Indian company. When equity shares of an Indian company listed on an international exchange are sold, sale proceeds (net of taxes) will be remitted outside India or credited to holder's account.

Further details can be found on the RBI website:

<https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12673&Mode=0>

April 24, 2024: Master Direction—Reserve Bank of India (Asset Reconstruction Companies) Directions, 2024

Summary

The provisions of these Directions apply to every asset reconstruction company (ARC) registered with the Reserve Bank under Section 3 of the SARFAESI Act, 2002, with an aim to ensure the prudent and efficient functioning of ARCs while protecting the interest of investors.

The provided text in the notification consists of guidelines and regulations for ARCs cover various aspects, including:

- **Registration:** The process and requirements for ARCs to obtain registration.
- **Asset Reconstruction and Securitization:** Guidelines for the acquisition of financial assets, realization plans, management change, sale or lease of business, debt rescheduling, enforcement of security interest, settlement of dues, and conversion of debt into equity.
- **Prudential Regulations:** Capital adequacy ratio, asset classification, and provisioning requirements.
- **Governance and Conduct:** Requirements for the board and management, fit and proper criteria for sponsors and investors, and the Fair Practices Code (FPC).
- **Accounting and Disclosures:** Guidelines related to accounting, including the preparation of balance sheets and profit and loss accounts, classification of liabilities and assets, and disclosure requirements.

Insights

Major impact from the new guidelines consists of certain minimum regulatory requirements that are a major step up from the previously applicable ones, like minimum Capital Adequacy Ratio for a set of on- and off-balance sheet items, minimum capital requirement of Rs 300 crore instead of Rs 100 crore. The ARCs have been given a transition period of almost 2 years i.e., March 31, 2026, to implement and fully comply with the mentioned requirement.

With the onset of increased minimum capital, ARCs are also allowed to invest up to 10% of their Net Owned Funds (NOF) in a multitude of investment vehicles like government securities, certificates of deposits, mutual funds, government bonds, mutual funds, among others.

- Although the regulations may require a three-fold jump in the minimum capital requirements, they will eventually strengthen the Indian ARC ecosystem.
- A strengthened ARC ecosystem will increase the efficiency of their collective recovery efforts.
- An efficient ARC ecosystem further reinforces the entire banking ecosystem while maintaining transparency in operations.

Further details can be found in the RBI press release:

<https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12669&Mode=0#SE4>

April 23, 2024: Dealing in Rupee Interest Rate Derivative products— Small Finance Banks

Summary

This circular is applicable to all Small Finance Banks (SFBs) with immediate effect. The new guidelines permit SFBs to use permissible rupee interest rate derivative products in accordance with the latest Rupee Interest Rate Derivatives (Reserve Bank) Directions.

Insights

With the new guidelines, SFBs have been granted by RBI new tools to be more effective in managing and hedging the interest rate risk in their balance sheet and commercial operations.

Further details can be found in the RBI press release:

<https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12668&Mode=0>

April 16, 2024: Implementation of Section 12A of the Weapons of Mass Destruction and their Delivery Systems (Prohibition of Unlawful Activities) Act, 2005: Designated List (Amendments)

Summary

The document addresses the implementation of Section 12A of the Weapons of Mass Destruction (WMD) and their Delivery Systems Act, 2005, specifically focusing on the Designated List amendments. It references the Master Direction on Know Your Customer (KYC) and emphasizes the importance of Regulated Entities (REs) ensuring meticulous compliance with the procedures outlined in the WMD Act.

Key points highlighted in the document include:

- REs must comply with the Procedure for Implementation of Section 12A of the WMD Act, 2005, as per the Ministry of Finance's order dated September 01, 2023.
- REs are required to verify the 'UNSCR 1718 Sanctions List of Designated Individuals and Entities' daily to account for any modifications and ensure compliance with the 'Implementation of Security Council Resolution on Democratic People's Republic of Korea Order, 2017'.
- The circular communicates the Consolidated Lists of UNSC Designated/Sanctioned Individuals and Entities under UNSC Resolutions related to non-proliferation, with amendments notified periodically.
- Amendments to the Designated List are enacted by the UNSC Committee, as specified in the circular, and REs are advised to ensure compliance with these changes.
- The document provides URLs for accessing the latest version of the UNSC Sanctions lists on DPRK on the UN Security Council's website.
- REs are urged to carefully review the communications provided and ensure strict adherence to compliance requirements.

Overall, the document serves as a directive for REs to stay updated on designated lists, verify sanctions lists regularly, and comply with relevant regulations to prevent unlawful activities related to WMDs and their delivery systems.

Insights

- The circular serves as a reminder for REs to be vigilant, review communications carefully, and take necessary actions to ensure strict compliance with regulatory measures.
- The importance of complying with Section 12A of the Weapons of Mass Destruction Act, 2005, and the designated list amendments to prevent unlawful activities related to WMDs and their delivery systems.
- Emphasis on meticulous compliance by Regulated Entities (REs) with the procedures outlined in the WMD Act and the Master Direction on Know Your Customer.
- The requirement for REs to verify the UNSCR 1718 Sanctions List of Designated Individuals and Entities daily and ensure compliance with relevant Security Council resolutions.
- Communication of Consolidated Lists of UNSC Designated/Sanctioned Individuals and Entities under UNSC Resolutions, with amendments made periodically.

Further details can be found in the RBI press release:

<https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12666&Mode=0>

April 16, 2024: Master Circular—Deendayal Antyodaya Yojana—National Rural Livelihoods Mission (DAY-NRLM)

Summary

The Master Circular on Deendayal Antyodaya Yojana—National Rural Livelihoods Mission (DAY-NRLM) provides comprehensive guidelines and instructions for the implementation of the program by banks. Here is a detailed summary of the key points covered in the circular:

1. **KYC Norms:**
 - a. Know Your Customer (KYC) norms specified by the Reserve Bank of India are applicable to signatories of accounts at various levels under DAY-NRLM.
2. **Purpose of the Circular:**
 - a. The circular aims to consolidate and update the guidelines and instructions issued by the Reserve Bank of India regarding the implementation of the DAY-NRLM program.
3. **Reporting Mechanisms:**
 - a. Banks are required to submit progress reports and delinquency reports to the Lead District Managers (LDM) every month.
 - b. A state-wise consolidated report on the progress made under DAY-NRLM must be submitted to the RBI on a quarterly basis.

4. Financial Literacy:
 - a. Financial literacy is highlighted as a crucial strategy to raise awareness about financial behaviour and products/services among households.
 - b. Financial Literacy Community Resource Persons (FL-CRPs) are deployed to conduct financial literacy camps at the village level.
5. Data Sharing:
 - a. Banks are encouraged to share data with DAY-NRLM or State Rural Livelihood Missions (SRLMs) in agreed formats and intervals, ensuring compliance with customer service provisions.
 - b. Consent from customers for data sharing should be obtained separately and specifically, not as a general clause in account/loan applications.
6. Access to Finance:
 - a. Continuous and easy access to finance at reasonable rates is emphasized as crucial for individuals to overcome poverty.

Overall, the Master Circular provides a framework for banks to effectively participate in the DAY-NRLM program, ensuring proper reporting, financial literacy initiatives, data sharing, adherence to KYC norms, and facilitating access to finance for individuals in rural areas to alleviate poverty.

Insights

The guideline in question highlights the focused and tailored approach to women empowerment, financial inclusion, demand-driven approaches, and the role of financial literacy in promoting sustainable livelihoods and poverty reduction in rural areas.

- The DAY-NRLM program adopts a demand-driven approach, allowing states to formulate their own tailored poverty reduction action plans.
- The program focuses on promoting affinity-based women Self Help Groups (SHGs) to empower women in rural areas.
- DAY-NRLM provides Revolving Fund (RF) support to SHGs to strengthen their institutional and financial management capacity. SHGs meeting specific criteria are eligible for RF support, ranging between ₹20,000 - ₹30,000 per group 2.
- We coincide with the highlighted importance on Financial literacy as a key tool to raise awareness about financial behaviour and products/services among households.
- Banks are encouraged to share data with DAY-NRLM or State Rural Livelihood Missions (SRLMs) to facilitate the implementation of various strategies.

Further details can be found in the RBI press release:

<https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12665&Mode=0>

April 16, 2024: Master Circular—Credit facilities to Scheduled Castes (SCs) & Scheduled Tribes (STs)

Summary

The circular updates and consolidates previous guidelines issued by RBI on the subject and provides guidelines for banks to step up their advances to SCs/STs.

The circular emphasizes the planning process, role of banks, reservations for SC/ST beneficiaries under major centrally sponsored schemes, credit enhancement guarantee scheme for SCs, and the review and monitoring of credit flow to SCs/STs.

Banks are instructed to establish closer liaison with the District Industries Centres and give weightage to SCs/STs in the planning process. They should also establish a special cell at the Head Office for monitoring the flow of credit to SC/ST beneficiaries.

The circular also highlights the role of SC/ST Development Corporations in considering bankable loan applications. It suggests that rejection of SC/STs' loan applications under government programs should be done at the next higher level instead of at the branch level.

Overall, the circular aims to promote the flow of credit to SCs/STs and ensure their participation and larger access to credit for self-employment. It emphasizes the need for banks to review their lending procedures and policies, create awareness among SC/ST borrowers about various schemes, and comply with circulars issued by RBI/NABARD. The circular also mentions the inclusion of the National Commission for SCs/STs in State Level Bankers Committees and the role of private sector banks in lending to SCs/STs.

In summary, the document provides guidelines for banks to enhance credit facilities to SCs/STs, with a focus on planning, role of banks, reservations, credit enhancement guarantee scheme, and review and monitoring of credit flow.

Insights

- The circular underlines the aim to increase advances to Scheduled Castes (SCs) and Scheduled Tribes (STs) by directing banks to give special consideration to SCs/STs in the credit planning process and develop bankable schemes suited to them for self-employment.
- Banks should review their lending procedures and policies to ensure timely and production-oriented loans that generate incremental income for SCs/STs.
- Reservations for SC/ST beneficiaries under major centrally sponsored schemes should be implemented, and banks should review the progress made in lending to these communities.
- Guidelines aim to ease the process of applying for loan Banks should provide assistance to SC/ST borrowers in filling out forms and completing formalities and create awareness among them about various schemes through brochures and field staff visits.
- The credit facilities to SCs/STs should be reviewed and monitored by banks on a regular basis, and any major gaps or variations in credit flow should be reported to the Board.
- The circular also mentions the role of District Level Consultative Committees, District Industries Centres, and State Level Scheduled Caste/Scheduled Tribe Corporations in promoting credit to SCs/STs.
- Loans sanctioned to State Sponsored Organizations for SCs/STs for the purchase and supply of inputs and marketing of outputs are eligible for priority sector classification.

Further details can be found in the RBI press release:

<https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12664&Mode=0>

April 15, 2024: Key Facts Statement (KFS) for Loans & Advances

Summary

The document issued by the Reserve Bank of India (RBI) provides guidelines on the Key Facts Statement (KFS) for Loans & Advances. The KFS aims to enhance transparency and empower borrowers to make informed financial decisions by providing key facts of loan agreements in a simplified format. It includes information on interest rates, charges, repayment schedules, and qualitative details. The guidelines standardize the information provided to borrowers by regulated entities, and compliance is mandated by October 1, 2024.

The KFS includes components such as the type of loan, sanctioned loan amount, disbursement schedule, loan term, instalment details, interest rate, additional information for floating interest

rates, fees/charges, Annual Percentage Rate (APR), contingent charges, and other qualitative information related to the loan agreement.

The validity period mentioned in the guidelines for the KFS is significant as it determines the period available to the borrower to agree to the terms of the loan after being provided with the KFS by the regulated entity. This impacts borrowers and regulated entities as the terms of the loan indicated in the KFS are binding if agreed to by the borrower during the validity period.

Insights

- The Reserve Bank of India (RBI) has issued guidelines on Key Facts Statement (KFS) for Loans & Advances to enhance transparency and empower borrowers to make informed financial decisions. The KFS provides key facts of loan agreements in a simplified format, including information on interest rates, charges, repayment schedules, and qualitative details. The guidelines aim to standardize information provided to borrowers by regulated entities and ensure compliance by October 1, 2024.
- Key Components of KFS:
 - The KFS includes details such as the type of loan, sanctioned loan amount, disbursement schedule, loan term, instalment details, interest rate, APR computation sheet, and amortization schedule.
 - It also encompasses qualitative information such as grievance redressal mechanisms, potential transfer or securitization of the loan, collaborative lending arrangements, and specific disclosures for digital loans.
- Significance of Validity Period:
 - The validity period of the KFS impacts borrowers and regulated entities by providing a timeframe for borrowers to agree to the loan terms after receiving the KFS.
 - Regulated entities are bound by the terms of the loan indicated in the KFS if agreed to by the borrower during the validity period.

Further details can be found in the RBI press release:

<https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12663&Mode=0>

April 15, 2024: Hedging of Gold Price Risk in Overseas Markets

Summary

The circular issued by the Reserve Bank of India (RBI) introduces key changes related to the hedging of gold price risk in overseas markets. It permits resident entities to hedge their exposures to price risk of gold using OTC derivatives in the International Financial Services Centre (IFSC) in addition to derivatives on exchanges in the IFSC. This provides further flexibility for resident entities to manage their exposures to gold price risk in international markets. The circular has immediate effect and updates the Master Direction – Foreign Exchange Management (Hedging of Commodity Price Risk and Freight Risk in Overseas Markets) Directions, 2022. The stipulations set out in the Master Direction include requirements that need to be adhered to when hedging commodity price risk in overseas markets.

Insights

The circular issued by the Reserve Bank of India introduces key changes allowing resident entities to hedge their exposures to the price risk of gold using OTC derivatives in the International Financial Services Centre (IFSC) in addition to derivatives on exchanges in the IFSC. This provides further flexibility for resident entities to manage their gold price risk in overseas markets. The Master Direction - Foreign Exchange Management Directions, 2022, stipulates the conditions for hedging commodity price risk in overseas markets.

Further details can be found in the RBI press release:

<https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12662&Mode=0>

April 15, 2024: CIMS Project Implementation—Submission of Statutory Returns (Form A, Form VIII and Form IX) on CIMS Portal

Summary

The notification discusses the implementation of the Centralised Information Management System (CIMS) Project by the Reserve Bank of India. It outlines the key changes related to the submission of statutory returns by banks, specifically Form A, Form VIII, and Form IX, on the CIMS Portal,

replacing the XBRL Portal. The significance of caution against responding to unsolicited requests for personal information from RBI is emphasized.

The key changes mentioned in the article regarding the submission of statutory returns by banks to the Reserve Bank of India include the shift of submission of Form A, Form VIII, and Form IX Returns from the XBRL Portal to the CIMS Portal. Banks are required to submit the fortnightly Form A Return from June 14, 2024, monthly Form VIII Return from May 2024, and the annual Form IX Return from December 31, 2024, exclusively on the CIMS Portal. However, banks are instructed to continue submitting Form A & Form VIII on both XBRL and CIMS portals concurrently until the specified date/month.

Insights

The notification reaffirms RBI's commitment to prefer CIMS as a regulatory reporting framework by ensuring a smooth transition to regulatory reporting via CIMS portal from the existing ADF framework.

Further details can be found in the RBI press release:

<https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12661&Mode=0>

April 2, 2024: Master Circular—Housing Finance

Summary

The circular addresses lending practices related to housing loans for various purposes. It stipulates that bank finance can be granted for the purchase of a plot only if a declaration is obtained from the borrower that they intend to construct a house on the said plot. It also allows loans for repairs to damaged dwelling units and extends finance for various scenarios such as the purchase of a second house, letting out a property on rental basis, or buying an old house where the borrower is residing as a tenant. Furthermore, the circular provides specific guidelines for lending to housing finance institutions, housing boards, and other agencies for land acquisition and development.

In addition, the circular emphasizes the importance of fair lending practices and disclosure requirements. It advises banks to stipulate as part of the terms and conditions that

builders/developers disclose the bank(s) to which the property is mortgaged in pamphlets/brochures and advertisements. Furthermore, it highlights the need for adherence to the National Building Code (NBC) formulated by the Bureau of Indian Standards (BIS) and the National Disaster Management Authority (NDMA) guidelines to ensure the safety of buildings, especially against natural disasters.

Insights

The circular issued by the Reserve Bank of India provides a comprehensive framework of rules and regulations for banks in relation to housing finance. It covers various aspects such as loan quantum, innovative housing loan products, rate of interest, exposure to real estate, priority sector lending, fair lending practices, and additional guidelines. The circular emphasizes responsible lending conduct and disclosure requirements, along with addressing specific lending practices related to housing loans for construction, repairs, and slum improvement. Additionally, it outlines specific guidelines for lending to housing finance institutions, housing boards, and other agencies for land acquisition and development.

Overall, the circular provides a comprehensive set of guidelines and regulations aimed at promoting responsible lending practices and ensuring transparency in the housing finance sector.

Further details can be found in the RBI press release:

<https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12656&Mode=0>

April 2, 2024: Master Circular—Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances

Summary

The Master Circular consolidates instructions related to prudential norms on income recognition, asset classification, and provisioning for advances. It emphasizes the importance of independent credit appraisal by lenders, sensitivity tests and scenario analysis for infrastructure projects, monitoring of end-use of funds, provisions for housing loans at teaser rates, and the provisioning

coverage ratio. It also outlines specific provisions for certain types of loans, including those against agricultural produce and for on-lending to agriculture. The circular does not introduce any new guidelines but consolidates instructions issued up to March 31, 2024.

Additionally, the circular addresses the resolution of stressed assets, requiring banks' Board of Directors to focus on improving credit risk management systems and put in place a system for proper and timely classification of borrowers as wilful defaulters or non-cooperative borrowers.

Insights

The master circular was only intended to consolidate all the instructions related to the subject matter until Mar 2024 rather than add new instructions or update any existing ones.

Further details can be found in the RBI press release:

<https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12657&Mode=0>

April 2, 2024: Master Circular—Housing Finance for UCBs

Summary

The Master Circular issued by the Reserve Bank of India outlines guidelines for Urban Co-operative Banks (UCBs) regarding housing finance. It covers eligible borrowers, terms and conditions for housing loans, additional finance, lending to housing boards, advances to builders/contractors, priority sector lending, precautions, and adherence to the National Building Code.

It emphasizes the role of UCBs in providing housing finance and addresses the issue of priority sector lending for housing finance. The circular provides specific terms and conditions regarding maximum loan amount, interest rates, security for housing loans, and precautions to be taken to prevent fraud.

The circular also encourages UCBs to play a positive role in providing finance for housing schemes, particularly for weaker sections of the community. It permits UCBs to grant loans for housing schemes up to certain limits from their own resources. Eligible borrowers include individuals, co-operative/group housing societies, housing boards, and owners of houses/flats for extension and up-gradation.

Insights

The master circular was only intended to consolidate all the instructions related to the subject matter until Mar 2024 rather than add new instructions or update any existing ones.

Further details can be found in the RBI press release:

<https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12655&Mode=0>

April 2, 2024: Master Circular—Income Recognition, Asset Classification, Provisioning and Other Related Matters—UCBs

Summary

The document provides updated guidelines from the Reserve Bank of India to Primary (Urban) Co-operative Banks regarding income recognition, asset classification, provisioning, and related matters. It includes provisions for specific cases such as state government guaranteed advances, advances covered by ECGC guarantee, and exposures guaranteed by Credit Guarantee Schemes. It also outlines provisions for interbank exposure and transfer of loan exposures. Additionally, it addresses valuation of security, compromise settlements, technical write-offs, and criteria for satisfactory performance in various types of accounts.

Insights

The master circular was only intended to consolidate all the instructions related to the subject matter until Mar 2024 rather than add new instructions or update any existing ones.

Further details can be found in the RBI press release:

<https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12658&Mode=0>

April 1, 2024: Master Circular on Board of Directors—UCBs

Summary

The circular issued by the Reserve Bank of India (RBI) provides comprehensive guidelines for the constitution and functioning of the Board of Directors of Primary (urban) Co-operative Banks. The key requirements for the constitution of the Board include the necessity for knowledgeable and high-integrity directors, the inclusion of professional directors with suitable banking experience or relevant qualifications, and the establishment of a Board of Management for professional management. The circular also emphasizes the need to avoid honorary positions/titles at the Board level and outlines the role and responsibilities of directors, including their involvement in policy formulation, supervision, and adherence to regulatory policies.

Additionally, the circular highlights the formation of committees such as the Audit Committee and Risk Management Committee to oversee internal audit/inspection, risk management, and compliance with regulatory guidelines. It also provides a detailed calendar of reviews on important aspects of the bank's working that should be presented before the Board of Directors at regular intervals.

Insights

The document underscores the importance of professionalism, transparency, and adherence to regulatory guidelines in the governance structure of Co-operative Banks. The circular outlines key requirements for the constitution of the Board, emphasizes the role and responsibilities of directors, and establishes the importance of formation of certain key committees to oversee internal audit/inspection, risk management, and compliance with regulatory guidelines.

Further details can be found in the RBI press release:

<https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12642&Mode=0>

April 1, 2024: Master Direction on Counterfeit Notes, 2024— Detection, Reporting and Monitoring

Summary

The Master Direction on Counterfeit Notes issued by the Reserve Bank of India provides comprehensive guidelines for banks on detecting, reporting, and monitoring counterfeit notes. It includes instructions for impounding counterfeit notes, issuing receipts, reporting to police, training staff, and more. The document also outlines the legal provisions under which the RBI has issued this direction.

The document suggests that banks should have mechanisms in place to ensure only properly sorted and machine-examined banknotes are fed into ATMs or issued over the counter. It also provides a template for reporting counterfeit notes to the police and requesting investigation, including details of FIR cases filed with the police.

The document emphasizes the importance of reporting counterfeit notes to the police and provides templates for consolidated monthly reports to the police, requests for FIR to the police, and monthly reports to RBI issue offices on counterfeit notes.

Additionally, it requires banks to upload information on counterfeit notes detected during the month on the FIU-IND portal and NCRB portal. It also mandates reporting instances of acceptance or issuance of counterfeit notes to the Chief Vigilance Officer of the bank.

Furthermore, it requires banks to follow up on pending FIR cases at branches or currency chests with police authorities or designated Nodal Police Officer and conduct surprise checks if a significant number of counterfeit notes are detected in any currency chest or branch.

Insights

The circular is a crucial step in the direction of maintaining integrity in the Indian financial ecosystem. It emphasises the importance of fishing out the counterfeit currency from the monetary system in India and then, flushing all of them while also taking strict action against defaulters. To aid in detection of counterfeit currency, there are detailed descriptions of security features that are present in various denominations of Indian banknotes.

The document includes a template for the "Consolidated Monthly Report to the Police," which banks are required to submit to the police, providing details of counterfeit notes detected. It mandates the establishment of a Forged Notes Vigilance Cell at the head office of banks and the provision of devices facilitating detection of counterfeit notes.

Further details can be found in the RBI press release:

<https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12653&Mode=0>

April 1, 2024: Master Circular—Prudential Norms on Capital Adequacy - Primary (Urban) Co-operative Banks

Summary

1. **Capital Adequacy Requirements:** UCBs are required to maintain a minimum level of capital to support their risk-weighted assets. The capital adequacy ratio (CAR) should not fall below the prescribed minimum levels to ensure financial stability and absorb potential losses.
2. **Types of Capital:** The circular outlines the components of Tier I and Tier II capital that UCBs can maintain to meet the capital adequacy requirements. These include share capital, reserves, and other instruments that contribute to the bank's capital base.
3. **Risk Management:** UCBs are expected to have robust risk management practices in place to identify, measure, monitor, and control various risks such as credit risk, market risk, and operational risk. Adequate provisions for bad debts and non-performing assets are essential to maintain financial health.
4. **Reporting Requirements:** UCBs issuing instruments like Long-Term Subordinated Bonds (LTSB) are required to submit reports to the RBI detailing the amount raised, terms and conditions of the issue, and other relevant information. Compliance with reporting obligations is crucial for regulatory oversight.
5. **Other Conditions:** The circular specifies conditions related to the issuance of LTSB, reserve requirements, investments in LTSB, and restrictions on granting loans or advances for purchasing LTSB. UCBs must adhere to these conditions to ensure regulatory compliance.
6. **Additional Provisions:** The circular allows for the use of additional general provisions (floating provisions) for bad debts within specified limits. These provisions can be used for netting off gross NPAs or included in Tier II capital, subject to regulatory guidelines.
7. **Compliance and Disclosures:** UCBs are required to ensure compliance with the guidelines provided in the circular and make necessary disclosures to regulatory authorities. Any conflicts with other regulatory requirements should be brought to the attention of the RBI for clarification.

By following the guidelines outlined in the Master Circular, UCBs can strengthen their capital adequacy, enhance risk management practices, and maintain regulatory compliance to support the stability and resilience of the banking sector.

Further details can be found in the RBI press release:

<https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12642&Mode=0>

April 1, 2024: Master Direction on Penal Provisions in reporting of transactions/ balances at Currency Chests

Summary

The document issued by the Reserve Bank of India (RBI) focuses on the reporting procedures and penal provisions related to transactions and balances at Currency Chests. It highlights the significance of adhering to guidelines to support the Clean Note Policy objectives. The guidelines stress the timely and accurate reporting of currency chest transactions to uphold discipline in the system. Penalties, including penal interest, are specified for instances of delayed reporting, wrong reporting, and inclusion of ineligible amounts in chest balances. The document also addresses the business continuity plan, allowing for user switching in case of connectivity issues, and outlines the appellate authority for penalty waivers. Operational guidelines for penalties and penal interest are provided, emphasizing the importance of maintaining accuracy and compliance in reporting practices within the currency management framework.

Insights

1. **Clean Note Policy Compliance:** The document underscores the importance of adhering to guidelines to support the objectives of the Clean Note Policy through accurate and timely reporting of currency chest transactions.
2. **Penal Provisions:** Clear penal measures, including penal interest and flat penalties, are outlined for delayed reporting, wrong reporting, and inclusion of ineligible amounts in chest balances to maintain discipline in reporting practices.

3. **Business Continuity:** The provision for user switching in the CyM-CC portal during connectivity issues demonstrates a proactive approach to ensure uninterrupted reporting and avoid delays that could lead to punitive actions.
4. **Appellate Authority:** The document specifies conditions under which requests for penalty waivers may be considered, emphasizing the need for accountability and compliance with reporting standards.
5. **Operational Guidelines:** Detailed operational guidelines are provided to guide banks on the levy of penalties and penal interest, emphasizing the importance of accuracy and prompt reporting to avoid penalties and maintain the integrity of currency management practices.

Further details can be found in the RBI press release:

<https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12648&Mode=0>

April 1, 2024: Master Circular—Lead Bank Scheme

Summary

1. Lead Bank Scheme Overview

- The LBS was introduced based on the recommendations of the Gadgil Study Group and the Nariman Committee, with the aim of improving the rural outreach and social orientation of commercial banks.
- The scheme involves the assignment of lead bank responsibility to designated banks in every district, who are expected to assume a leadership role in coordinating the efforts of credit institutions and the government.
- The scheme is implemented through various forums at the block, district, and state levels, including the Block Level Bankers' Committee, the District Consultative Committee (DCC), the District Level Review Committee (DLRC), and the State Level Bankers' Committee (SLBC).
- These forums facilitate the preparation of credit plans, the review of their implementation, and the resolution of operational issues.
- The LBS has evolved to focus on inclusive growth and financial inclusion, with an emphasis on the use of information technology and intermediaries to increase the outreach and depth of banking services.

2. Credit Planning and Monitoring

- The LBS involves a bottom-up approach to credit planning, with the Potential Linked Credit Plans (PLPs) prepared by NABARD as the basis for the preparation of Annual Credit Plans (ACPs) by banks.
 - The performance of the credit plans is reviewed at various levels, including the BLBC, the DCC, the DLRC, and the SLBC.
 - The RBI has also introduced a Monitoring Information System (MIS) to monitor the implementation of the LBS.
- 3. Expanding Banking Penetration**
- The LBS has focused on expanding banking penetration, with initiatives to provide banking services in unbanked villages and to open brick-and-mortar branches in villages with a population of more than 5,000 without a bank branch.
 - The LBS has been aligned with the National Strategy for Financial Inclusion (NSFI) 2019-2024, which aims to provide universal access to financial services.

Insights

- The Lead Bank Scheme (LBS) was introduced in 1969 to improve the rural outreach and social orientation of commercial banks, with the assignment of lead bank responsibility to designated banks in each district.
- The LBS is implemented through various forums at the block, district, and state levels, including the Block Level Bankers' Committee, the District Consultative Committee (DCC), the District Level Review Committee (DLRC), and the State Level Bankers' Committee (SLBC).
- These forums facilitate the preparation of credit plans, the review of their implementation, and the resolution of operational issues, following a bottom-up approach starting from the block level.
- The LBS has evolved to focus on inclusive growth and financial inclusion, with an emphasis on leveraging information technology and intermediaries to increase the outreach and depth of banking services.
- The Reserve Bank of India has introduced a Monitoring Information System (MIS) to monitor the implementation of the LBS, and has also aligned the scheme with the National Strategy for Financial Inclusion (NSFI) 2019-2024.
- The LBS has been instrumental in expanding banking penetration, with initiatives to provide banking services in unbanked villages and to open brick-and-mortar branches in villages with a population of more than 5,000 without a bank branch.
- The LBS has also been leveraged to support the government's objective of doubling farmers' income by 2022, through initiatives such as the promotion of irrigation, quality

seeds, warehousing and cold chains, value addition, and diversification towards high-value crops.

Further details can be found on the RBI website:

<https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12643&Mode=0>

April 1, 2024: Master Circular—Guarantees and Co-acceptances

Summary

This master circular is applicable to All Scheduled Commercial Banks excluding Payments Banks and RRBs. RBI provides guidelines and instructions for banks on the conduct of guarantee business, covering various aspects of issuing guarantees.

- General guidelines on the purpose, maturity, and nature of guarantees that banks should follow.
- Precautions to be taken by banks while issuing guarantees, including for unsecured guarantees, performance guarantees, and to prevent frauds.
- Implementation of recommendations made by the Ghosh Committee to prevent unaccounted and fake guarantees.
- Requirements for internal control systems, including joint signatures for large value guarantees.
- Guidelines for issuing guarantees on behalf of bank directors and associated entities.
- Flexible approach for issuing bid bonds and performance guarantees for exports.
- Restrictions on issuing guarantees for placement of funds with non-bank entities.
- Prompt payment of invoked guarantees and effective appraisal of guarantee proposals.
- Safeguards and procedures to be followed for co-acceptance of bills by banks.

Insights

- The guidelines aim to ensure that banks conduct their guarantee business in a prudent and controlled manner, with appropriate safeguards and compliance with regulations.
- Banks should generally confine themselves to financial guarantees and exercise caution with performance guarantees, as they carry inherent risks.

- Banks are advised to limit their commitments on unsecured guarantees and take necessary precautions while issuing them, such as avoiding undue concentration and obtaining adequate security.
- Effective implementation of the Ghosh Committee recommendations is emphasized to prevent unaccounted and fake guarantees.
- Banks are required to have robust internal control systems, including joint signatures for large value guarantees, to mitigate the risk of malpractices.
- Special guidelines are provided for issuing guarantees on behalf of bank directors and associated entities to ensure compliance with regulations.
- A flexible approach is adopted for issuing bid bonds and performance guarantees for exports, while ensuring proper safeguards and monitoring.

Further details can be found on the RBI website:

<https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12644&Mode=0>

April 1, 2024: Master Circular—Guarantees, Co-Acceptances & Letters of Credit—UCBs

Summary

This master circular is applicable to All Primary (Urban) Co-operative Banks. RBI provides comprehensive guidelines issued by the Reserve Bank of India (RBI) to Primary (Urban) Co-operative Banks (UCBs) on the conduct of guarantee business, co-acceptance of bills, and issuance of letters of credit.

1. Guarantees
 - UCBs should follow broad guidelines regarding the purpose, maturity, and volume of guarantees issued.
 - UCBs should preferably issue secured guarantees and limit the volume of unsecured guarantees.
 - UCBs should exercise due diligence while issuing guarantees, including assessing the customer's financial position and need for the guarantee.
 - UCBs should promptly honor bank guarantees upon invocation, as per the Supreme Court's guidelines.

- UCBs should not delay in making payments under invoked guarantees due to the lack of certified copies of court judgments.
- 2. Co-acceptance of Bills
 - UCBs should exercise caution while co-accepting bills, ensuring that they are genuine trade bills, and the co-accepting bank has the capacity to redeem the obligation.
 - UCBs should maintain proper records of the co-accepted bills and periodically report the position to their Controlling Offices.
- 3. Letters of Credit (LCs)
 - UCBs should not normally grant LC facilities to parties who maintain only nominal current accounts, and should ascertain the reasons from the existing bankers.
 - UCBs should follow various safeguards while opening LCs, such as issuing them in security forms, obtaining joint signatures, and ensuring adequate arrangements for retiring the bills.
 - UCBs should promptly honor the commitments under LCs, as delayed or non-payment can adversely affect the credibility of the banking system.
- 4. Other Common Guidelines
 - UCBs must strictly observe the exposure norms and statutory/other restrictions prescribed for non-fund based limits.
 - UCBs should strengthen their information sharing and monitoring systems regarding borrowers availing credit facilities from multiple banks.
 - UCBs should adopt effective Asset-Liability Management (ALM) systems to address liquidity, interest rate, and currency risks.

Insights

- UCBs should limit the volume of guarantees issued to 10% of their total owned resources.
- Unsecured guarantees should be limited to 25% of owned funds or 25% of total guarantees.
- Guarantees should be confined to short-term maturities, not exceeding 10 years.
- UCBs should thoroughly assess the proposals, ensure availability of security/margins, and maintain proper records.
- UCBs should not issue guarantees to customers who only maintain current accounts without proper due diligence.
- UCBs should ensure co-acceptance is limited to genuine trade bills and not accommodation bills.
- Proper records of co-accepted bills should be maintained and periodically reported to Controlling Offices.

- UCBs should not grant LC facilities to parties who only maintain nominal current accounts without due diligence.
- UCBs should adopt effective ALM systems to address liquidity, interest rate, and currency risks arising from non-fund based activities.

Further details can be found on the RBI website:

<https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12647&Mode=0>

April 1, 2024: Master Direction—Scheme of Penalties for bank branches and Currency Chests for deficiency in rendering customer service to the members of public

Summary

This master direction is applicable to all banks. As part of Clean Note Policy and to achieve operational efficiency of currency management, RBI has put a framework of penalties. This framework will enhance the customer experience provided by bank branches / currency chests. These penalties on bank branches / currency chests can be for multiple reasons such as non-compliance of operational guidelines, improper exchange of notes and coins, inefficient operation of currency chests, deficiencies in remittance sent to RBI, violation of RBI terms of agreement etc.

Further details can be found on the RBI website:

<https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12645&Mode=0>

April 1, 2024: Master Circular on SHG-Bank Linkage Program

Summary

This master circular is applicable to all the scheduled commercial banks. Self Help Groups play a vital role in bridging the gap between formal banking and the unbanked rural population. To promote the financial inclusion, banks are advised to meet the credit requirements of the self help groups through SHG-Bank Linkage Program.

Insights

1. **Importance of SHG–Bank linkage**
SHG play significant role in financial inclusion and socio-economic development. As per assessment of NABARD, this linkage program create numerous positive impacts such as increased loan volumes for SHGs, creation of income generating activities, high recovery rates of the loan, women empowerment.
2. **Government Initiatives**
Government encourages all the scheduled commercial banks to meet credit requirement of SHGs for various purposes such as income generating activities, social needs, refinancing existing high-cost debt.
3. **Bank Guidelines**
By providing incentives to the branches for financing the SHGs, banks encourage to enhance the SHG-Bank Linkage Program. Branches follow simplified procedure and hassle-free financing to the SHGs.

Further details can be found on the RBI website:

<https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12649&Mode=0>

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